Federated City Employees' Retirement System

A Pension Trust Fund of the City of San José, California

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Comprehensive Annual Financial Report

Federated City Employees' Retirement System

For the Fiscal Year Ended June 30, 2008

Federated City Employees' Retirement Plan

Russell U. Crosby

Director

A Pension Trust Fund of

the City of San José, California

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Department of Retirement Services

1737 North First Street, Suite 580

San José, California 95112-4505

408 392-6700 Phone

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www.sjretirement.com

CITY OF SAN JOSE

CAPITAL OF SILICON VALLEY

Board Chair Letter

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

October 8, 2008

The Honorable Mayor and City Council
Members of the Federated City Employees' Retirement System
City of San José
San José, California

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's (the System) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. Some significant events worthy of note during this fiscal year were as follows:

- The System earned a time-weighted rate of return of (3.1%) on investments, compared to (2.9%) for its benchmark and (4.4%) for the Independent Consultants Cooperative's (ICC) Public Fund Median. Additionally, the System earned a time-weighted rate of return of 7.5% and 9.5% for the three-year and five-year periods ending June 30, 2008 respectively, while the ICC Public Fund Median earned a time-weighted rate of return of 6.8% and 8.9% for the same periods. The fair value of the System's investments decreased from $1,860,643,000 to $1,774,277,000, net of pending purchases and sales (see Investment Summary on page 71).
- Changes in the System's staffing included the appointment of a new Director. The Trustees expanded the investment consultant's relationship to a full service retainer investment consulting service and hired the law firm of Hanson Bridgett LLP to assist the System with investment matters.
- The System introduced a new voluntary life insurance program for retirees and opened a window of opportunity for domestic partners to be included for survivorship and medical benefits.
- The Board recommended and the City Council approved an ordinance amending the San Jose Municipal Code to provide the City with the option to make lump sum payments of the City's required contribution to the System.
- During the year, the System offered a record 73 educational classes with over 1,800 Police, Fire, and Federated active and retired member participation.

The Board believes that the professional services rendered by the staff, the auditors, investment counselors, the actuarial consultants, and the Fund performance evaluators have produced a sound fund capable of continued growth. The Board of Administration and its staff are available to provide additional information when requested.

Sincerely,

David Busse, Chairman
Board of Administration

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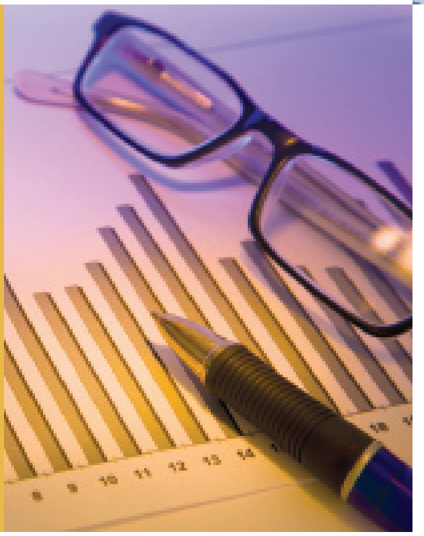
Introductory Section



City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Letter of Transmittal

October 8, 2008

City of San José
Department of Retirement Services
Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, CA 95112

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Federated City Employees' Retirement System (the System) for the fiscal year ended June 30, 2008. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the System's management. Macias Gini & O'Connell LLP, the System's independent auditor, has audited the accompanying financial statements. Management believes that internal control is adequate and the accompanying statements, schedules and tables are fairly presented and free from material misstatement.

The System was established in 1941 and switched to the CAFR format for the fiscal year ended June 30, 2000. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). The System also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council. I encourage you to review the narrative introduction, overview and analysis located in Management's Discussion and Analysis beginning on page 14.

I trust that you and the members of the System will find this CAFR helpful in understanding the System; a plan that continues to maintain a strong and positive financial future.

Certificate of Achievement

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. The System first received the certificate for its fiscal year ended June 30, 2000 CAFR with its first application and has received the certificate every year since then. We believe our current report continues to conform to the Certificate of Achievement Program Requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Transactions of the System are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

Major Initiatives

During the fiscal year 2007-08, the City appointed a new Director and the Trustees expanded their relationship with Strategic Investment Solutions, Inc. (SIS) to a full retainer investment consulting service and hired the law firm of Hanson Bridgett LLP to assist with investment matters.

The Trustees approved new asset allocation targets following completion of an Asset Liability Modeling study conducted by SIS. The new asset allocation increases the allocation to Private Equity and International Equity while reducing the allocation to Domestic Equity. Transition to the new asset allocation targets will continue through fiscal year 2008-09.

The Trustees approved the actuarially determined prepayment amount to be paid by the City on August 1, 2008. The City Council adopted an ordinance amending the San Jose Municipal Code to provide the City with the option to make lump sum payments of City's required contributions to the System.

The System in conjunction with the Police and Fire Retirement Plan established the Joint Committee on Solutions to the Retiree Health Care. The focus of the Committee was to review the impact of GASB 43 and 45.

The System introduced a new voluntary life insurance program for retirees. In compliance with the State law the Board opened a window of opportunity for domestic partners to have their partners included for survivorship and medical benefits. The System also coordinated with the City's Finance Department procedures related to military reservists returning from active duty.

During the year, the System offered a record 73 educational classes with over 1,800 Police, Fire, and Federated active and retired member participation.

Letter of Transmittal *Continued*

Changes in System Membership

System membership changes for the defined benefit pension plan for fiscal year 2007-08 were as follows:

	2008	*2007*	*Increase*	*Change*
Active Members*	4,879	4,673	206	4.41%
Retired Members	2,432	2,315	117	5.05%
Survivors**	454	434	20	4.61%
TOTAL	**7,765**	**7,422**	**343**	**4.62%**

**Active members include deferred vested members, i.e., members who have left City service but remain members of the System.*

***Survivor total includes ex-spouses.*

Financial and Economic Summary

The 2007-08 fiscal year was a difficult year as the effects of sub-prime mortgages continued to create a difficult situation for financial institutions including the government-sponsored home mortgage giants. Stock markets, both domestic and international, performed poorly during the fiscal year. Volatility has soared as investors remain anxious and uncertainty continues around future market direction and oil prices jumped sharply during the year.

Investment Summary

The Board of Administration has exclusive control of all investments of the System and is responsible for the establishment of investment objectives, strategies and policies. Members of the Board serve in a fiduciary capacity and must discharge their duties with respect to the System and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and defraying the reasonable cost of administration.

Over the past fiscal year, the System's return was (3.1%), while the Independent Consultants Cooperative's (ICC) Public Funds median return over the same period was (4.4%), which placed the System's total return in the second quartile of the ICC Public Funds Universe. The System's return was 7.5% and 9.5 % for the three-year and five-year periods ending June 30, 2008 respectively, while the ICC Public Funds Universe was 6.8% and 8.9% for the same periods. In the valuation of pension benefits the actuarial assumption for the rate of return that will be earned on the System is 8.25%. The impact of the difference between the actual rate of return earned on the System, (3.1%), and the 8.25% assumption will result in an investment loss that will be reflected in the pension liability of next year's CAFR. Moreover, the fair value of the Plan's investments decreased from $1,860,643,000 to $1,774,277,000, net of pending purchases and sales (see Investment Summary on page 71).

Funding

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the funding ratio of the System was approximately 82.8% (based on Market value of assets). A six-year history of the System's funding progress is presented on page 41. The net decrease in System assets for fiscal year 2007-08 was $86,742,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 24.

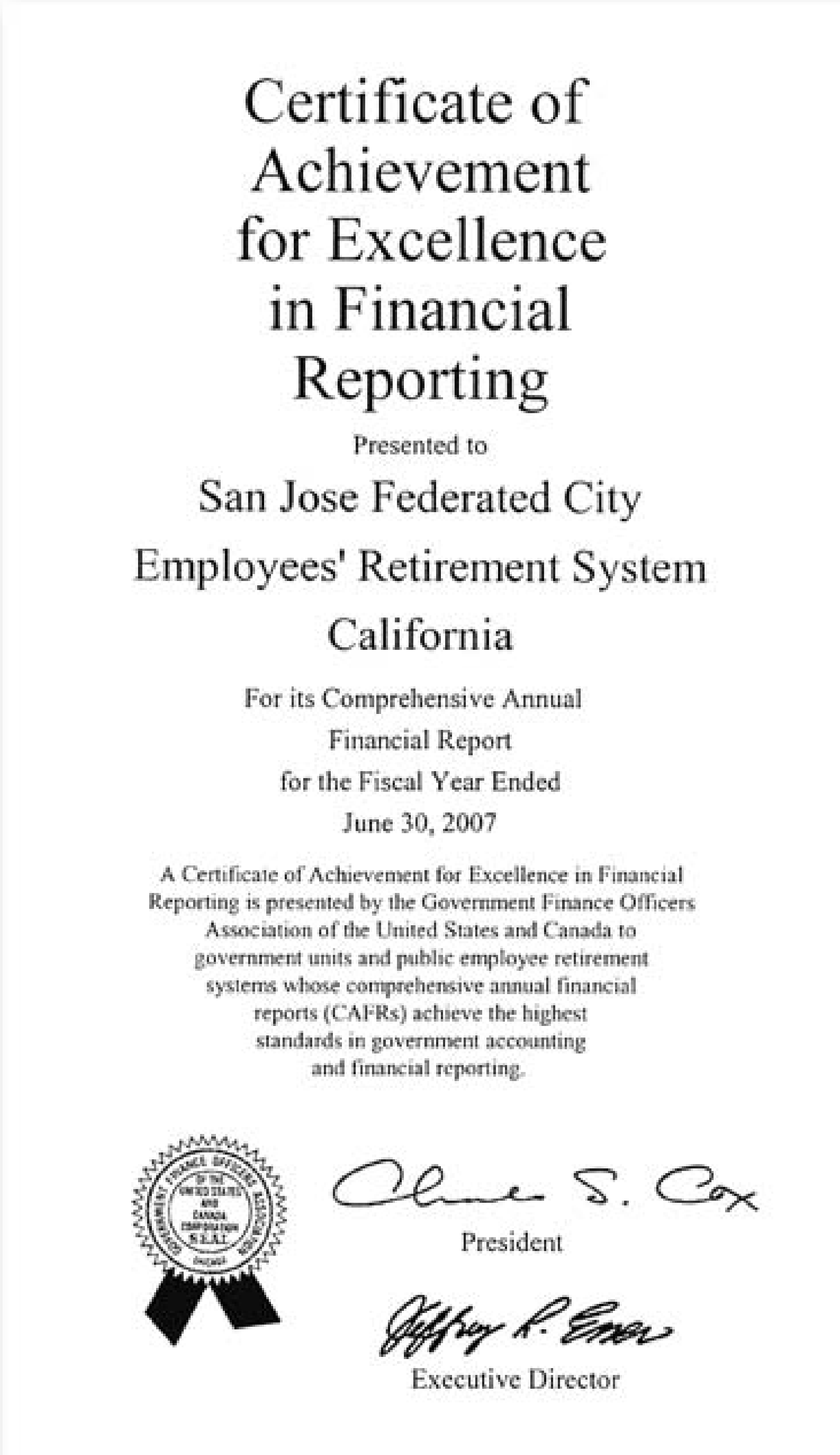
Conclusion

I would like to take this opportunity to thank the members of the System for their confidence in the plan management during the past year. I also want to express my thanks to the Board of Administration for its dedicated effort in supporting the staff through this past year. I thank the consultants and staff for their commitment to the System and for their diligent work to assure the System's continued successful operation.

Respectfully Submitted,

Russell U. Crosby
Director, Retirement Services

Certificate of Achievement for Excellence in Financial Reporting



Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Federated City Employees' Retirement System California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Certificate of Meeting Professional Standards in Public Pensions

PPCC

Public Pension Coordinating Council

Public Pension Standards

2007 Award

Presented to

Federated City Employee's
Retirement System of San Jose

In recognition of meeting
professional standards for plan design
and administration as set forth
in the Public Pension Standards.

Presented by the Public Pension Coordinating Council,
a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

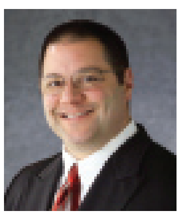
The Retirement System is administered by a seven-member Board of Administration composed of two City Council members, a member from the Civil Service Commission, two City employees elected by members of the system, a Retiree Representative, and a public member who is not connected with the City and has significant banking or investment experience selected by the four Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 10 of the San Jose Municipal Code.

As of June 30, 2008, the members of the Board were as follows:

DAVID BUSSE, CHAIRMAN
Civil Service Commission member appointed in February 2003. His current term expires December 1, 2010.

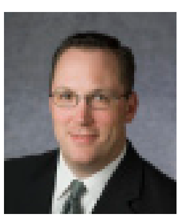
WILLAIM A. THOMAS, VICE CHAIRMAN
Retired Plan member appointed in August 2001. His current term expires November 30, 2008.

PATRICK SKILLSKY
Employee Representative appointed to the Board in June 2008. His current term expires November 30, 2009.



PETE CONSTANT
City Council member appointed to the Board in January 2007.

JEFFREY PERKINS
Public member appointed to the Board in June 1996. His current term expires November 30, 2010.



MATT LOESCH
Employee Representative appointed to the Board in December 2007. His current term expires November 30, 2011.

FORREST WILLIAMS
City Council member appointed to the Board in August 2001.

ADMINISTRATION

RUSSELL U. CROSBY
DIRECTOR

DONNA BUSSE
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

CARMEN RACY-CHOY
DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER
(Effective July 8, 2008)

OUTSIDE CONSULTANTS

ACTUARY
Gabriel, Roeder, Smith & Company
Denver, CO

ATTORNEY, BOARD
Saltzman & Johnson
San Francisco, CA

ATTORNEY, INVESTMENT
Hanson Bridgett, LLP
San Francisco, CA

ATTORNEY, REAL ESTATE
Bingham McCutchen, LLP
East Palo Alto, CA

AUDITOR
Macias Gini & O'Connell LLP
Walnut Creek, CA

A list of Investment Professionals begins on page 57 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

Board Meetings: Second Thursday of the Month, 8:30 AM
Investment Committee: Quarterly
Investment Committee of the Whole: Quarterly
Real Estate Committee: Ad Hoc

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at *http://www.sjretirement.com/FED/Meetings/Agendas.asp* or they can be obtained from the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112-4505. Meeting times and locations are subject to change; please call our office at (408) 392-6700 for current information.

Department of Retirement Services Organizational Chart

- **RUSSELL U. CROSBY** — *Director*
  - **CARMEN RACY-CHOY** — *Deputy Director, Chief Investment Officer*
    - **(VACANT)** — *Investment Officer*
      - **RONALD R. KUMAR** — *Financial Analyst*
      - **UDAYA RAJBHANDARI** — *Financial Analyst*
      - **CEARA O'FALLON** — *Analyst II*
      - **CRISTIN JAMES** — *Staff Specialist*
    - **VERONICA NIEBLA** — *Senior Accountant*
      - **SUSAN PERREIRA** — *Accountant*
      - **HOA LANG** — *Accounting Technician*
      - **JENNIFER LE** — *Senior Account Clerk*
      - **SELINA ORDAZ** — *Account Clerk*
  - **DONNA BUSSE** — *Deputy Director, Chief Operations Officer*
    - **DEBBI WARKENTIN** — *Administrative Assistant*
      - **TAMASHA JOHNSON** — *Secretary*
      - **ANDREA OGANA** — *Office Specialist*
      - **ROBIN JACQUES** — *Office Specialist*
    - **BARBARA HAYMAN** — *Information Systems Analyst*
      - **MAY CHEUNG** — *Systems Analyst*
      - **GINA BILLINGS** — *Network Technician II*
    - **ROGER PICKLER** — *Support Services Supervisor*
      - **KARIN CARMICHAEL** — *Analyst*, Education/Training
        - **(VACANT)** — *Staff Technician*
      - **CAROL BERMILLO** — *Analyst*, Health Benefits
      - **TONI JOHNSON** — *Senior Analyst*, Pension Benefits
        - **CION GARCIA** — *Staff Technician*
        - **MARIA LOERA** — *Analyst*
        - **RHONDA SNYDER** — *Temporary Analyst*
        - **AMANDA RAMOS** — *Analyst*
        - **VACANT** — *Analyst II*

Department of Retirement Services
1737 North First Street, Suite 580
San Jose, CA 95112-4505
408 392-6700 Phone
800 732-6477 Phone
408 392-6732 Fax
www.sjretirement.com

Summary of the Principal System Provisions

MEMBERSHIP

Mandatory for all full-time non-safety employees.

MEMBER CONTRIBUTION

All members contribute 7.58% of base salary.

CITY'S CONTRIBUTION

The City contributes 21.98% of the base salary. The financing is designed to provide reserves sufficient to meet the accrued and accruing liabilities under the prescribed benefit schedule. (Rates are reviewed following each actuarial survey.)

RETIREMENT

Members may retire at age 55 with five or more years of service or at any age with 30 years of service.

RETIREMENT ANNUITY

The retirement annuity payable is the Final Average Salary multiplied by 2.5% per year of service (Maximum Benefit: 75% of the Final Average Salary).

FINAL AVERAGE SALARY

The average monthly salary for the highest twelve (12) consecutive months.

DISABILITY RETIREMENT

Non-Service-Connected

A non-service-connected disability annuity is available to members with five (5) or more years of service if the disability is permanent and prevents the member from performing any work in his/her present classification. The base non-service connected disability annuity is the greater of 40% of the Final Average Salary or the earned retirement allowance (Final Average Salary x 2.5% x Number of Years of Service). The annuity will be reduced by .5% for each year of age under 55.

For those entering the system September 1, 1998 or later, the calculation is as follows:

20% of Final Average Salary for 6 years of service;
add 2% for each year of service in excess of 6 years but less than 16 years;
add 2.5% for each year of service in excess of 16 years of service.

Service-Connected

A service-connected disability is available if the disability is permanent and directly due to and caused by actual performance of employment within the City. The minimum service-connected disability annuity is 40% of the final average salary. There is no minimum service requirement for a service-connected disability nor reduction factor due to age. The disability benefit is offset by certain workers' compensation payments. If a member has more than 16 years of service with the City of San Jose, they will also receive 2.5% of the Final Average Salary for each year in excess of 16 years of service in addition to the 40% benefit for a Service-Connected Disability. (Maximum Benefit: 75% of the Final Average Salary)

TERMINATION BENEFITS

Upon termination, the member will be paid all of his or her accumulated contributions and interest in full satisfaction of all rights and benefits under this Retirement System except that a member terminating with at least five (5) years of service may elect to leave the accumulated contributions and interest on deposit with option of reciprocity.

DEFERRED RETIREMENT

Contributions left on deposit by a member terminating with at least five (5) years of service (vesting) entitle the employee to a retirement annuity upon attaining age 55.

RECIPROCITY

Effective December 9, 1994, the City entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another. If a member terminates and goes to a California PERS agency or a reciprocal agency and claims reciprocity, they may leave their accumulated contributions and interest on deposit regardless of years of service.

COST OF LIVING

Effective April 1, 2006, the cost-of-living (COL) provision provides a flat 3% annual adjustment in April for retirees and survivors.

DEATH BEFORE RETIREMENT

The surviving spouse of an eligible employee who dies before retirement will receive a retirement allowance determined by the years of service times 2.5% times the final average salary (minimum of 40% and maximum of 75%). Unmarried children are entitled to an allowance to age 18 (22 if they are full time students) if there is no spouse. The allowance is as follows:

1 child receives 25% of the spousal benefit
2 children share 50% of the spousal benefit
3+ children share 75% of the spousal benefit

The beneficiary, in the event that no family members are eligible for a monthly allowance, is entitled to a return of the member's contributions and interest plus a death benefit of one month's salary for each year of service (up to six years).

If the employee is 55 and has 20 or more years of service at the time of death, his/her spouse will retain the survivorship allowance for life. If not, the spouse loses the allowance upon a remarriage.

Summary of the Principal System Provisions *Continued*

DEATH AFTER RETIREMENT

The surviving spouse receives one-half* of the member's retirement allowance until death and a $500 death benefit (*At the time of retirement, the member may select an alternative option allowing for a survivorship allowance of up to 100% of the member's allowance). If there is no surviving spouse, dependent children are eligible for an allowance. The allowance is:

1 child receives 25% of spousal benefit
2 children share 50% of spousal benefit
3+ children share 75% of spousal benefit

MANAGEMENT

The System is under the management of a seven (7) member Board of Administration consisting of two City Council members, a Civil Service Commissioner, a public member with significant banking or investment experience, a retiree representative, and two elected employees who are members of the Retirement System.

ADMINISTRATION

A full-time Director is employed by the City. He serves as Secretary and Chief Executive Officer to the Board of Administration.

The Fund pays the cost of the personnel who are employed for the purpose of managing the Retirement System. It also pays any directly related administrative costs.

The Northern Trust is employed as custodian of fund assets and collector of investment income.

ACTUARIAL SOUNDNESS

Gabriel, Roeder, Smith & Company is retained for regular, continuing actuarial services. Plan and benefit provisions are periodically reviewed to assure continuing soundness.

INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and allows maximum utilization of the System's resources. Nationally known investment advisory services are retained for full-time investment counsel. Strategic Investment Solutions, Inc is retained from managers listed on page 57 as the investment consultant.

Financial Section

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Independent Auditor's Report

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916-928-4600 phone

2175 N. California Boulievard, Suite 645
Walnut Creek, CA 94596
925-274-0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213-286-6400

402 West Broadway, Suite 400
San Diego, CA 92101
619-573-1112

Board of Administration
City of San José
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, CA 95112-4505

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Federated City Employees' Retirement System (System), a pension trust fund of the City of San José, California, as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2(a), the financial statements of the System are intended to present only the plan net assets and changes in plan net assets of the System. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2008 and 2007, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of June 30, 2008 and 2007, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report *Continued*

Macias Gini & O'Connell LLP
Certified Public Accountants & Management Consultants

As discussed in Note 2(e), effective July 1, 2007, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 8, 2008 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedules designated as other required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section, other supplementary information in the financial section, the investment, actuarial and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California
October 8, 2008

Management's Discussion and Analysis (Unaudited)

City of San José
Department of Retirement Services
Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
City of San José
San José, California 95112-4505

Russell U. Crosby
Director

We are pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 2 of this report.

Financial Highlights for Fiscal Year 2008

- The net assets of the System at the close of the fiscal year 2008 are $1,776,256,000 (net assets held in trust for pension benefits and postemployment healthcare benefits). All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve of $27,678,000.
- The System's total net assets held in trust for pension benefits and postemployment healthcare benefits decreased by $86,742,000 or 4.7%, primarily as a result of the depreciation of the fair value of investments caused by the decline in the equity investment market.
- Additions to Plan Net Assets for the year was $26,471,000, which includes member and employer contributions of $90,287,000, net investment loss of $64,802,000, and net securities lending income of $986,000.
- Deductions in Plan Net Assets increased from $102,225,000 to $113,213,000 over the prior year, or approximately 10.7% due to an increase in retirement benefits and healthcare premiums, which were attributable to enhanced benefits and an increased number of beneficiaries along with increased health premium costs.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's financial statements, which are comprised of these components:

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Basic Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.

The ***Statement of Plan Net Assets*** is a snapshot of account balances at fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The ***Statement of Changes in Plan Net Assets,*** on the other hand, provides a view of current year additions to and deductions from the System.

Both statements are in compliance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires certain disclosures and state and local government pension plan reports use the full accrual method of accounting. The System complies with all material requirements of these pronouncements.

The ***Statement of Plan Net Assets*** and the ***Statement of Changes in Plan Net Assets*** report information about the System's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's additions and deductions are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments.

These two statements report the System's net assets held in trust for pension benefits and postemployment healthcare benefits (net assets)—the difference between assets and liabilities. Over time, increases and decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the System's overall health (see the System's financial statements beginning on page 22 of this report).

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements on page 26 of this report).

Management's Discussion and Analysis (Unaudited) *Continued*

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and employer contributions (see Required Supplementary Information beginning on page 41 of this report).

The combining schedules, schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position (see Table 1a on page 16). The assets of the System exceeded its liabilities at the close of fiscal year 2008 and 2007.

As of June 30, 2008, $1,776,256,000 in total net assets was held in trust for pension benefits and postemployment healthcare benefits (see Table 1a on page 16). All of the net assets are available to meet the System's ongoing obligation to plan participants and their beneficiaries, except assets held in the Supplemental Retiree Benefit Reserve of $27,678,000, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2007, $1,862,998,000 in total net assets was held in trust for pension benefits and postemployment healthcare benefits (see Table 1b on page 16). This total represented an increase of $239,042,000 or 14.7% in net assets over the prior year primarily due to an increase in the fair value of investments of $219,055,000.

As of June 30, 2008, total net assets decreased by 4.7% over the prior year due to net depreciation in fair value of investments of $105,345,000.

As of June 30, 2008, receivables decreased by $5,863,000, or 5.6% mainly due to a decrease in receivables from brokers and others. In the previous year, receivables increased by $72,822,000, or 233.8% due to an increase in receivables from brokers and other.

As of June 30, 2008, total liabilities decreased by $61,166,000, or 17.0%, compared with June 30, 2007, due to a decrease payable to brokers and securities lending collateral due to borrowers.

As of June 30, 2007, total liabilities increased by $161,967,000 or 81.9%, compared with June 30, 2006, due to an increase in payable to brokers and securities lending collateral due to borrowers.

Reserves

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 28). The System's Net Assets are allocated between the Retirement Fund, which includes postemployment healthcare benefits, and the Cost-of-Living Fund.

The appreciation in the fair value of investments and the five-year smoothing of investment gains and losses resulted in a decrease of $175,690,000 in the "Unrealized Gains (Loss) on Investments Held" reserve as of June 30, 2008, and an increase of $156,437,000 as of June 30, 2007. These amounts are components of the general reserve.

Management's Discussion and Analysis (Unaudited) *Continued*

FCERS NET ASSETS (Table 1a)

As of June 30, 2008 and 2007

	2008	2007	Decrease Amount	Decrease Percent
Receivables	$ 98,110,000	$ 103,973,000	$ (5,863,000)	-5.6%
Investments at Fair Value	1,976,630,000	2,118,675,000	(142,045,000)	-6.7%
Total Assets	**2,074,740,000**	**2,222,648,000**	**(147,908,000)**	**-6.7%**
Current Liabilities	298,484,000	359,650,000	(61,166,000)	-17.0%
Total Liabilities	**298,484,000**	**359,650,000**	**(61,166,000)**	**-17.0%**
NET ASSETS	**$1,776,256,000**	**$1,862,998,000**	**$(86,742,000)**	**-4.7%**

FCERS NET ASSETS (Table 1b)

As of June 30, 2007 and 2006

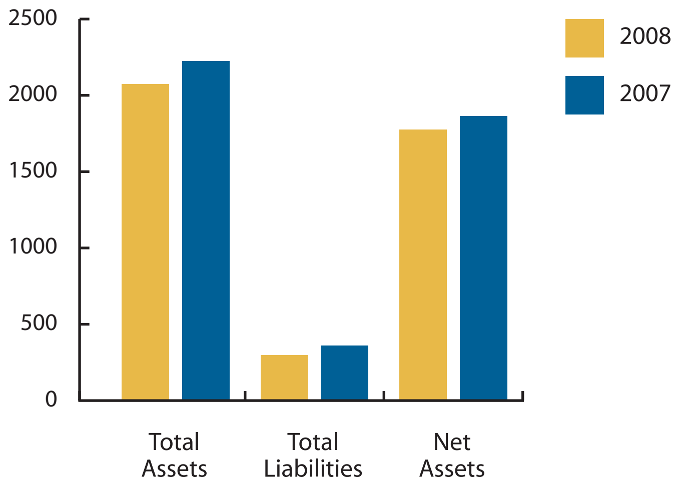
	2007	2006	Increase Amount	Increase Percent
Receivables	$ 103,973,000	$ 31,151,000	$ 72,822,000	233.8%
Investments at Fair Value	2,118,675,000	1,790,488,000	328,187,000	18.3%
Total Assets	**2,222,648,000**	**1,821,639,000**	**401,009,000**	**22.0%**
Current Liabilities	359,650,000	197,683,000	161,967,000	81.9%
Total Liabilities	**359,650,000**	**197,683,000**	**161,967,000**	**81.9%**
NET ASSETS	**$1,862,998,000**	**$1,623,956,000**	**$239,042,000**	**14.7%**

Management's Discussion and Analysis (Unaudited) *Continued*

FCERS NET ASSETS

As of June 30, 2008 and 2007

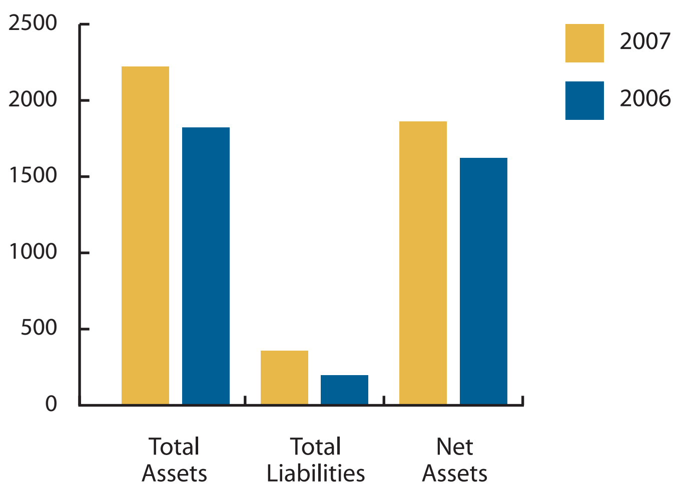
(Dollars in Millions)



FCERS NET ASSETS

As of June 30, 2007 and 2006

(Dollars in Millions)



Management's Discussion and Analysis (Unaudited) *Continued*

ADDITIONS TO PLAN NET ASSETS (Table 2a)

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee Contributions	$ 23,769,000	$21,982,000	$1,787,000	8.1%
Employer Contributions	66,518,000	61,732,000	4,786,000	7.8%
Net Investment Income/(Loss)*	(64,802,000)	257,047,000	(321,849,000)	-125.2%
Net Securities Lending Income	986,000	506,000	480,000	94.9%
TOTAL ADDITIONS	**$26,471,000**	**$341,267,000**	**$(314,796,000)**	**-92.2%**

**Net of Investment Expenses of $6,842,000 and $5,231,000 in 2007 and 2006, respectively*

ADDITIONS TO PLAN NET ASSETS (Table 2b)

For the Fiscal Years Ended June 30, 2007 and 2006

	2007	2006	Increase Amount	Increase Percent
Employee Contributions	$ 21,982,000	$ 17,621,000	$ 4,361,000	24.7%
Employer Contributions	61,732,000	47,228,000	14,504,000	30.7%
Net Investment Income*	257,047,000	139,764,000	117,283,000	83.9%
Net Securities Lending Income	506,000	382,000	124,000	32.5%
TOTAL ADDITIONS	**$341,267,000**	**$204,995,000**	**$136,272,000**	**66.5%**

**Net of Investment Expenses of $5,231,000 and $4,538,000 in 2006 and 2005, respectively*

DEDUCTIONS TO PLAN NET ASSETS (Table 3a)

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Retirement Benefits	$ 83,291,000	$ 75,135,000	$ 8,156,000	10.9%
Healthcare Insurance Premiums	20,195,000	18,265,000	1,930,000	10.6%
Death Benefits	6,263,000	5,867,000	396,000	6.7%
Refund of Contributions	972,000	1,008,000	(36,000)	-3.6%
Administrative and other	2,492,000	1,950,000	542,000	27.8%
TOTAL DEDUCTIONS	**$113,213,000**	**$102,225,000**	**$10,988,000**	**10.7%**

DEDUCTIONS TO PLAN NET ASSETS (Table 3b)

For the Fiscal Years Ended June 30, 2007 and 2006

	2007	2006	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Retirement Benefits	$ 75,135,000	$ 68,438,000	$ 6,697,000	9.8%
Healthcare Insurance Premiums	18,265,000	15,904,000	2,361,000	14.8%
Death Benefits	5,867,000	5,721,000	146,000	2.6%
Refund of Contributions	1,008,000	1,246,000	(238,000)	-19.1%
Administrative and other	1,950,000	1,893,000	57,000	3.0%
TOTAL DEDUCTIONS	**$102,225,000**	**$93,202,000**	**$9,023,000**	**9.7%**

Management's Discussion and Analysis (Unaudited) *Continued*

CHANGES IN PLAN NET ASSETS (Table 4a)

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	*2007*	*Increase/(Decrease) Amount*	*Increase/(Decrease) Percent*
Total Additions	$ 26,471,000	$ 341,267,000	$ (314,796,000)	-92.2%
Total Deductions	113,213,000	102,225,000	10,988,000	10.7%
NET INCREASE (DECREASE) IN PLAN ASSETS	**$(86,742,000)**	**$239,042,000**	**$(325,784,000)**	**-136.3%**

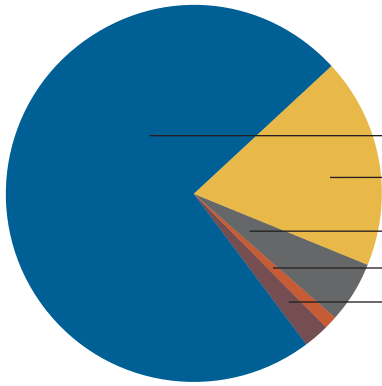
CHANGES IN PLAN NET ASSETS (Table 4b)

For the Fiscal Years Ended June 30, 2007 and 2006

	2007	*2006*	*Increase Amount*	*Increase Percent*
Total Additions	$ 341,267,000	$ 204,995,000	$ 136,272,000	66.5%
Total Deductions	102,225,000	93,202,000	9,023,000	9.7%
NET INCREASE (DECREASE) IN PLAN ASSETS	**$239,042,000**	**$111,793,000**	**$127,249,000**	**113.8%**

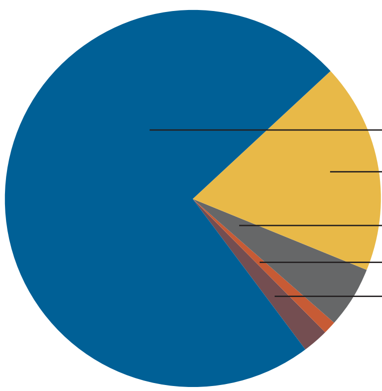
Management's Discussion and Analysis (Unaudited) *Continued*

DEDUCTIONS TO PLAN NET ASSETS 2008



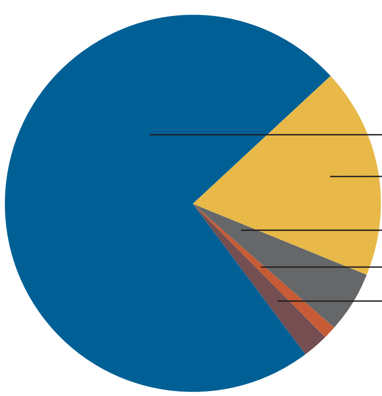
Retirement Benefits	73.6%	$83,291,000
Healthcare Insurance Premiums	17.8%	$20,195,000
Death Benefits	5.5%	$6,263,000
Refund of Contributions	0.9%	$972,000
Administrative and Other	2.2%	$2,492,000

DEDUCTIONS TO PLAN NET ASSETS 2007



Retirement Benefits	73.5%	$75,135,000
Healthcare Insurance Premiums	17.9%	$18,265,000
Death Benefits	5.7%	$5,867,000
Refund of Contributions	1.0%	$1,008,000
Administrative and Other	1.9%	$1,950,000

DEDUCTIONS TO PLAN NET ASSETS 2006



Retirement Benefits	73.4%	$68,438,000
Healthcare Insurance Premiums	17.1%	$15,904,000
Death Benefits	6.2%	$5,721,000
Refund of Contributions	1.3%	$1,246,000
Administrative and Other	2.0%	$1,893,000

Management's Discussion and Analysis (Unaudited) *Continued*

FCERS ACTIVITIES

The equity market depreciation during the fiscal year 2007-08 was the main driver of the decreased net assets, which declined by $86,742,000, thereby accounting for a 4.7% decrease from the prior year. Key elements of the Plan's financials are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions for the fiscal year ended June 30, 2008, totaled $26,471,000 (see Table 2a on page 18).

By the fiscal year ended June 30, 2008, overall additions had decreased by $314,796,000, or 92.2% from the prior year primarily due to a decrease in net investment income, which decreased by $321,849,000 or 125.2%. The System's time-weighted rate of return for the fiscal year ended June 30, 2008, was a negative 3.1% versus 16.22% for the fiscal year 2006-07.

Additions for the fiscal year ended June 30, 2007, totaled $341,267,000, representing an increase of $136,272,000 or 66.5%, from the prior year primarily due to an increase in net investment income which increased $117,283,000, or 83.9% (see Table 2b on page 18). The increase in net investment income was due to an increase in net appreciation in fair value of investments primarily as a result of a strengthening in the investment market.

Deductions from Plan Net Assets

The System was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the System, refund of contributions to terminated employees, and the cost of administering the System.

Deductions for the fiscal year ended June 30, 2008, totaled $113,213,000, an increase of 10.7% over fiscal year ended June 30, 2007, (see Table 3a on page 18). Increases in retirement benefits of $8,156,000, and healthcare insurance premiums of $1,930,000, were the primary factors for the increase in deductions. Retirement benefits increased due to increased number of beneficiaries. Healthcare insurance costs increased due to higher premiums. In addition, administrative expenses also increased primarily as a result of an increase in payroll costs due to increased staffing.

Deductions for the fiscal year ended June 30, 2007, totaled $102,225,000, an increase of 9.7% over fiscal year ended June 30, 2006, (see Table 3b on page 18). Increases in retirement benefits of $6,697,000, and healthcare insurance premiums of $2,361,000, were the primary reasons for the increase in deductions. Retirement benefits increased due to benefit enhancements and increased number of beneficiaries. Healthcare insurance costs increased due to higher premiums. In addition, administrative expenses also increased primarily as a result of an increase in payroll costs due to increased staffing.

The System's Fiduciary Responsibilities

The System's Board of Administration and management staff are fiduciaries of the pension trust fund. Under the California Constitution the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Economic Factors and Rates Affecting Next Year

The System completed a new actuarial valuation dated June 30, 2007, and the rates were adopted effective June 29, 2008. The rates calculated in the recent actuarial valuation are adopted by the Board for the fiscal years that extend from July 1, 2008 though June 30, 2009 and July 1, 2009 through June 30, 2010.

The new rates increase the contributions made by the City from 21.98% to 23.56% and the employees from 7.58% to 8.93%.

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the date of the System's most recent actuarial valuation, the funding status of the System increased from 80.9% to 82.8%. Funding status increased due to an increase in the actuarial value of assets from $1,384 million to $1,623 million. This increase in assets is mainly due to smoothing in investment gain from 2004 to 2007. The System's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes over the next five years, to the extent it is not offset by recognition of investment losses derived from future experiences.

Future experiences include the System's exposure to general market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is currently 8.25%. Market risk could impact the financial condition of the System and the City's required contribution towards the System. Any contribution rate impact from the capital markets depends in large measure on how deep the future market downturn is, how long it lasts, and how it fits within the fiscal year reporting periods as the actuarial valuation is performed once every two years.

Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, taxpayers, and investment managers with a general overview of the System's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, California 95112-4505

Respectfully Submitted,

Russell U. Crosby
Director

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2008 and 2007

(Dollars in thousands)	*Pension Benefits*	*Postemployment Healthcare Benefits*	*Total*
		2008	
ASSETS			
Receivables:			
Employee contributions	$ 565	$ 434	$ 999
Employer contributions	2,361	497	2,858
Brokers and others	82,220	4,671	86,891
Accrued investment income	6,965	397	7,362
Total receivables	**92,111**	**5,999**	**98,110**
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	18,619	1,037	19,656
U.S. government agency securities	228,590	12,727	241,317
International government bonds	64,938	3,616	68,554
Domestic corporate bonds	255,182	14,208	269,390
International corporate bonds	34,850	1,940	36,790
Domestic equity securities	628,708	35,004	663,712
International equity securities	278,912	15,529	294,441
Private market equity	54,240	3,020	57,260
International forward currency contracts	77	4	81
Derivative instruments	(33)	(2)	(35)
Collective short-term investment funds	36,319	2,021	38,340
Real estate	107,555	6,126	113,681
Securities lending cash collateral investment pool	164,120	9,323	173,443
Total investments	**1,872,077**	**104,553**	**1,976,630**
TOTAL ASSETS	**1,964,188**	**110,552**	**2,074,740**
LIABILITIES			
Payable to brokers	116,326	6,608	122,934
Securities lending collateral due to borrowers	164,120	9,323	173,443
Other liabilities	2,006	101	2,107
TOTAL LIABILITIES	**282,452**	**16,032**	**298,484**
NET ASSETS HELD IN TRUST FOR			
Pension benefits	1,681,736	-	1,681,736
Postemployment healthcare benefits	-	94,520	94,520
TOTAL NET ASSETS*	**$1,681,736**	**$94,520**	**$1,776,256**

Continued

**A schedule of funding progress is presented on page 41.*
See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF PLAN NET ASSETS *Continued*

June 30, 2008 and 2007

(Dollars in thousands)	2007 *Pension Benefits*	*Postemployment Healthcare Benefits*	*Total*
ASSETS			
Receivables:			
Employee contributions	$ 466	$ 364	$ 830
Employer contributions	2,034	428	2,462
Brokers and others	89,030	4,908	93,938
Accrued investment income	6,389	354	6,743
Total receivables	**97,919**	**6,054**	**103,973**
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	38,685	2,102	40,787
U.S. government agency securities	238,594	12,966	251,560
International government bonds	59,694	3,244	62,938
Domestic corporate bonds	199,432	10,838	210,270
International corporate bonds	36,880	2,004	38,884
Domestic equity securities	744,129	40,438	784,567
International equity securities	329,829	17,924	347,753
Private market equity	25,567	1,389	26,956
International forward currency contracts	(39)	(2)	(41)
Collective short-term investment funds	75,641	4,110	79,751
Real estate	77,140	4,192	81,332
Securities lending cash collateral investment pool	183,786	10,132	193,918
Total investments	**2,009,338**	**109,337**	**2,118,675**
TOTAL ASSETS	**2,107,257**	**115,391**	**2,222,648**
LIABILITIES			
Payable to brokers	155,529	8,574	164,103
Securities lending collateral due to borrowers	183,786	10,132	193,918
Other liabilities	1,545	84	1,629
TOTAL LIABILITIES	**340,860**	**18,790**	**359,650**
NET ASSETS HELD IN TRUST FOR			
Pension benefits	1,766,397	-	1,766,397
Postemployment healthcare benefits	-	96,601	96,601
TOTAL NET ASSETS*	**$1,766,397**	**$96,601**	**$1,862,998**

**A schedule of funding progress is presented on page 41.*
See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2008 and 2007

(Dollars in thousands)	2008 *Pension Benefits*	2008 *Postemployment Healthcare Benefits*	2008 *Total*
ADDITIONS			
Contributions:			
Employee	$13,366	$ 10,403	$23,769
Employer	54,958	11,560	66,518
Total Contributions	**68,324**	**21,963**	**90,287**
Investment income:			
Net depreciation in fair value of investments	(99,414)	(5,931)	(105,345)
Interest income	32,186	1,814	34,000
Dividend income	8,757	494	9,251
Net rental income	4,819	271	5,090
Less investment expense	(7,383)	(415)	(7,798)
Net investment income before securities lending income	**(61,035)**	**(3,767)**	**(64,802)**
Securities lending income:			
Earnings	8,124	458	8,582
Rebates	(6,879)	(388)	(7,267)
Fees	(311)	(18)	(329)
Net securities lending income	**934**	**52**	**986**
Net investment loss	**(60,101)**	**(3,715)**	**(63,816)**
TOTAL ADDITIONS	**8,223**	**18,248**	**26,471**
DEDUCTIONS			
Retirement benefits	83,291	-	83,291
Healthcare insurance premiums	-	20,195	20,195
Death benefits	6,263	-	6,263
Refund of contributions	972	-	972
Administrative expenses and other	2,358	134	2,492
TOTAL DEDUCTIONS	**92,884**	**20,329**	**113,213**
NET DECREASE	**(84,661)**	**(2,081)**	**(86,742)**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS & POST-EMPLOYMENT HEALTHCARE BENEFITS			
Beginning of Year	**1,766,397**	**96,601**	**1,862,998**
End of Year	**$1,681,736**	**$94,520**	**$1,776,256**

Continued

See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF CHANGES IN PLAN NET ASSETS *Continued*

For the Fiscal Years Ended June 30, 2008 and 2007

(Dollars in thousands)	*Pension Benefits*	*Postemployment Healthcare Benefits*	*Total*
	2007		
ADDITIONS			
Contributions:			
Employee	$ 12,370	$ 9,612	$ 21,982
Employer	51,004	10,728	61,732
Total Contributions	**63,374**	**20,340**	**83,714**
Investment income:			
Net appreciation in fair value of investments	207,706	11,349	219,055
Interest income	30,204	1,649	31,853
Dividend income	8,429	460	8,889
Net rental income	3,880	212	4,092
Less investment expense	(6,489)	(353)	(6,842)
Net investment income before securities lending income	**243,730**	**13,317**	**257,047**
Securities lending income:			
Earnings	9,634	526	10,160
Rebates	(8,994)	(491)	(9,485)
Fees	(160)	(9)	(169)
Net securities lending income	**480**	**26**	**506**
Net investment income	**244,210**	**13,343**	**257,553**
TOTAL ADDITIONS	**307,584**	**33,683**	**341,267**
DEDUCTIONS			
Retirement benefits	75,135	-	75,135
Healthcare insurance premiums	-	18,265	18,265
Death benefits	5,867	-	5,867
Refund of contributions	1,008	-	1,008
Administrative expenses and other	1,845	105	1,950
TOTAL DEDUCTIONS	**83,855**	**18,370**	**102,225**
NET INCREASE	**223,729**	**15,313**	**239,042**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS & POST-EMPLOYMENT HEALTHCARE BENEFITS			
Beginning of Year	**1,542,668**	**81,288**	**1,623,956**
End of Year	**$1,766,397**	**$96,601**	**$1,862,998**

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

For The Fiscal Years Ended June 30, 2008 and 2007

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San José Federated City Employees' Retirement System (System) is provided for general information purposes only. Employees and members should refer to the City of San José Municipal Code for more complete information.

(a) General

The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1941 and last amended June 24, 2008, to provide retirement benefits for certain employees of the City of San José (City). The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The System is administered by the Director of Retirement, an employee of the City, under the direction of the Federated City Employees' Retirement System Board of Administration (Board of Administration). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, which are funded by investment earnings, except for certain support services, which are provided by the City.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System. Total payroll, except for Police and Fire employees, amounted to approximately $322,763,000 and $305,088,000 for 2008 and 2007, respectively. Covered payroll amounted to approximately $301,266,000 and $280,575,000 for 2008 and 2007, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2008 and 2007, employee membership data related to the System was as follows:

Defined Benefit Pension Plan	2008	2007
Retirees and beneficiaries currently receiving benefits	2,886	2,749
Terminated vested members not yet receiving benefits	597	530
Active members	4,282	4,143
TOTAL	**7,765**	**7,422**

Postemployment Healthcare Plan	2008	2007
Retirees and beneficiaries currently receiving benefits	2,144	2,053
Terminated vested members not yet receiving benefits	82	77
Active members	4,282	4,143
TOTAL	**6,508**	**6,273**

The System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

(b) Pension Benefits

An employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits equal to 2.5% of final average annual salary for each year of service up to a maximum benefit of 75% of final compensation. Final compensation is the average annual salary during the highest 12 months of consecutive service, not to exceed 108% of compensation paid to the member during the 12 months immediately preceding the last 12 months of service. Final average salary excludes overtime pay and expense allowances. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum increase in the COLA is 3% per year.

If employees terminate employment and elect to receive a return of contributions, the accumulated plan benefits attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus earnings thereon is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. In the case of reciprocity, a member with less than five years of service may leave contributions in the system.

Effective December 9, 1994, the System entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal retirement benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

(c) Death Benefits

If an employee's death before retirement is service related, or is non-service related (employee has at least five years of service), a surviving spouse or domestic partner is paid an annual annuity benefit equal to 2.5% of final compensation multiplied by the number of years of service (minimum of 40% and maximum of 75% of final compensation) until he or she remarries

Notes to Basic Financial Statements *Continued*

NOTE 1 – DESCRIPTION OF THE PLAN *Continued*

or dies. Deferred vested members are not eligible for the 40% minimum. The allowance will continue even if the spouse or domestic partner remarries if the member was at least 55 years old and had at least 20 years of service. If there is no surviving spouse or domestic partner, unmarried children up to 18 years of age, or up to 22 years of age if a full-time student, are entitled to a benefit payment based on the spousal or domestic partner benefit such that no one child shall receive more than 25% of the spousal or domestic partner benefit and the sum for all eligible children shall not exceed 75% of the spousal or domestic partner benefit. If no family members are eligible, the employee's contributions plus one month's salary for each year of service up to a maximum of six years of service are returned to the employee's beneficiary or estate.

If an employee dies after retirement, $500 of death benefits is paid to the employee's beneficiary or estate. In addition, the employee's surviving spouse or domestic partner continues to receive, for life, 50% of the employee's annual pension benefit as defined above. If there is no surviving spouse or domestic partner, 25% of the spouse or domestic partner's benefit payment is made to each eligible child as defined above, but the maximum benefit to children cannot exceed 75% of the benefit that would have been paid to a surviving spouse or domestic partner.

(d) Disability Benefits

If an employee suffers a service related disability before retirement, the annual disability benefit paid is 40% of the final average salary. For members with more than 16 years of service, the monthly retirement allowance is the final average salary multiplied by 40% plus the final average salary multiplied by 2.5% for each year over 16. The maximum benefit is 75% of the final average salary.

If an employee with at least five years of service suffers a non-service related disability, the annual disability benefit is equal to the greater of: (1) 2.5% of final compensation multiplied by the number of years of service, up to a maximum of 30 years; or (2) 40% of final compensation. The benefit is reduced by 0.5% of final compensation for each year an employee's age is under 55.

If an employee was hired on or after September 1, 1998, the benefit is calculated using the following formula: 20% of final compensation, plus 2% for each year of service in excess of six but less than 16, plus 2.5% for years of service in excess of 16.

(e) Postemployment Healthcare Benefits

The City of San José Municipal Code provides that retired employees with 15 or more years of service, their survivors, or those retired employees who are receiving at least 37.5% of final compensation are entitled to payment of 100% of the lowest priced medical insurance plan available to an active System City employee. Members and eligible survivors must pay for the difference between the amount of the premium for their selected plan and the portion paid by the System. However, the System pays the entire premium cost for dental insurance coverage if the member retires directly from City service.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The System is reported as a pension trust fund in the City of San José's basic financial statements. The financial statements of the System present only the financial activities of the System and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

(b) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized as additions when due pursuant to formal commitments as well as statutory and contractual commitments (at the end of the pay period). Benefits and refunds of contributions are recognized when due and payable under the provisions of the Plan. Activities of the Defined Benefit Pension Plan and the Post-employment Healthcare Plan are accounted for separately. It is required by the municipal code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

The preparation of the financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(c) Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value. The fair value of the private equities are based on actual cash flows to/from the System and the transactions and unrealized gain/loss as ascertained from the most recently available investor reports or financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the financial statements and other portfolio information received from their underlying portfolio partnerships. The System's investments in pooled funds have the underlying securities valued by the fund manager in accordance with the above standards. As of June 30, 2008, the

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

Plan had the following pooled fund holdings: $355,892,000 in domestic equities, $80,451,000 in international equities, $57,260,000 in private equities, and $101,881,000 in real estate. As of June 30, 2007 the amounts were $412,624,000 in domestic equities, $106,014,000 in international equities, $26,956,000 in private equities, and $71,832,000 in real estate.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

(d) Plan Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits

The System is required by the City of San José Municipal Code to establish various reserves in the plan net assets. The Plan Net Assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2008 and 2007, the net assets, totaling $1,776,256,000 and $1,862,998,000, respectively, are allocated as follows:

Employee Contributions Reserve is a fully funded reserve that represents the total accumulated employee contributions of current active and deferred members plus credited interest. The reserve is accounted for separately due to the possibility of their return to the member upon separation from City employment.

Supplemental Retiree Benefit Reserve is a fully funded reserve that represents 10% of total accumulated excess earnings plus credited interest.

General Reserve is a reserve that represents net earnings resulting from interest earnings, realized and unrealized investment gains and losses. The general reserve is fully funded for the retirement fund and partially funded for the postemployment healthcare plan. The unrealized gains and losses for fiscal year 2008 and 2007 were $180,592,000 and $356,282,000, respectively. General Reserve also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total Defined Benefit Pension Benefits Plan*	*Postemployment Healthcare Plan*	*Total*
June 30, 2008:					
Employee contributions	$ 181,961	$ 47,006	$ 228,967	$ 13,922	$ 242,889
Supplemental retiree benefit	27,678	-	27,678	-	27,678
General reserve	1,025,776	399,315	1,425,091	80,598	1,505,689
TOTAL	**$1,235,415**	**$446,321**	**$1,681,736**	**$94,520**	**$1,776,256**
June 30, 2007:					
Employee contributions	$ 173,744	$ 46,981	$ 220,725	$12,857	$ 233,582
Supplemental retiree benefit	18,590	-	18,590	-	18,590
General reserve	1,113,002	414,080	1,527,082	83,744	1,610,826
TOTAL	**$1,305,336**	**$461,061**	**$1,766,397**	**$96,601**	**$1,862,998**

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

(e) Implementation of Governmental Accounting Standards Board Statements

For fiscal year ended June 30, 2008, the System implemented GASB Statement 50, *Pension Disclosures*. This Statement amends note disclosure and required supplementary information (RSI) standards of Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with applicable changes adopted in Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Specifically, Statement 50 requires the following additional disclosures for sole employer plans:

- Notes to the financial statements should disclose the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.
- Notes to the financial statements should disclose the funded status of the plan as of the most recent actuarial valuation date. Define benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to required supplementary information (RSI).
- Notes to financial statements should include a reference linking the funded status disclosure in the notes to the financial statements to the required schedule of funding progress in RSI.
- If applicable, the notes to the financial statements should disclose legal or contractual maximum contribution rates. In addition, if relevant, they should disclose that the maximum contribution rates have not been explicitly taken into consideration in the projection of pension benefits for financial accounting measurement purposes.
- If an actuarial assumption is different for successive years, notes to financial statements should disclose the initial and ultimate rates.

This Statement aligns disclosures for pension benefits with that of current other postemployment pension disclosure requirements for governments. The System's defined pension benefit plan is disclosed in Note 5 and is presented in accordance with the requirements set forth in Statement 50.

NOTE 3 – INVESTMENTS

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, foreign currency risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. The System does not have a policy regarding interest rate risk. As of June 30, 2008, GNMAs in the amount of $23,389,000 and U.S. government agency securities in the amount of $210,737,000 are backed by mortgage pass-throughs which are highly sensitive to interest rate changes of which one FHLMC in the amount of $1,213,914 is a floating rate bond tied to the 1 year CMT. Therefore, if interest rates decline, the mortgages are subject to prepayment by borrowers. However, the System's intent is to hold all fixed maturity investments until maturity, and accordingly, fixed maturity investments are classified in the following tables as if they were held to maturity. International government bonds include $2,565,800 of a floating rate bond linked to the 10-year Japanese Government Bond that is reset semi-annually. As of June 30, 2007, the GNMAs were in the amount of $1,049,000 and U.S. government agency securities were $239,315,000. In addition, as of June 30, 2008, $5,088,022 of the collaterized mortgage obligations (CMO) are floating rate securities tied to the 1 month LIBOR; $900,794 are tied to the one-year CMT; and $8,115,994 are tied to a combination of LIBOR and CMT. Also, $9,941,595 of the other asset backed securities are floating rate bonds tied one or three-month LIBOR; $9,537,032 of the corporate bonds are floating rate bonds tied to the three-month LIBOR; and $909,604 of the corporate bonds are floating rate but not tied to an index. As of June 30, 2007, international government bonds included $532,619 of a variable rate bond that was linked to the URINUSCA, index and was reset semi-annually. The amount of international corporate bonds included $2,714,646 of a principle only investment and $703,092 of a floating rate security linked to the KRW 3 months CD that was reset quarterly. In 2007, $2,298,000 of the collateralized mortgage obligations are tied to the 1 to 12 month LIBOR plus 32-45 bps, and $1,495,000 of the FHMC's is a floating rate security tied to the one-year CMT plus 212.9 bps.

Custodial Credit Risk – Custodial credit risk is the risk that the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if that outside party fails. The System's custodian holds all investments of the System in the System's nominee name except for the

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

assets held in pooled funds, which are under custody of the investment managers' custodian bank.

***Credit Quality Risk* –** Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. The System's assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed maturity investment grade shall be defined as being rated Baa/BBB or better by two of the following three rating services; Moody's Investor Services (Moody's), Standard & Poor's Corporation (S&P) or Fitch Rating Services (Fitch's). In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used. Up to 15% investment in BB or B securities will be permitted with written authorization of the Board. The investment managers employed to manage domestic fixed-income securities will have discretion in the day-to-day management of the funds under their control. International fixed maturity must be rated at least Aa3/AA-. If the corresponding ratings assigned by S&P and Moody's are not equivalent, the higher rating will be used for purposes of measuring portfolio and security quality. If a security is not rated by S&P or Moody's, the equivalent rating determined by the investment manager's research department will be used. If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the manager is permitted to hold up to 2% of the System's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security. The System may hedge against the possible adverse effects of currency fluctuations on the System's portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

***Foreign Currency Risk* –** The risk that changes in exchange rates will adversely affect the fair value of an investment. To mitigate this risk, individual investment managers are permitted to defensively hedge currency to mitigate the impact on currency fluctuation on the underlying asset value.

***Concentration of Credit Risk* –** The System's investment policy limits the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

Domestic Equity – Minimum 38% and maximum 48% of the fair value of the aggregate portfolio.

International Equity – Minimum 10% and maximum 20% of the fair value of the aggregate portfolio.

Domestic Bonds – Minimum 24% and maximum 34% of the aggregate portfolio.

Global Bonds – Minimum 4% and maximum 10% of the aggregate portfolio.

Private Markets – Limited to 6% of the fair value of the aggregate portfolio.

Real Estate – Minimum 3% and maximum 9% of the aggregate portfolio. Real Estate investments include a warehouse located in Northern California, and an interest in six real estate funds managed by third parties.

Short-term investments includes certificates of deposit and the collective short-term investment fund, which is used for overnight investment of all excess cash in the System's funds. It is invested by the System's Custodian, and held in the System Custodian's name. This fund consists of high-grade domestic and international money market instruments with short maturities, such as:

- Short-term fixed corporate and U. S. agency obligations;
- Commercial Paper;
- Certificates of Deposit;
- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and
- Fully insured bank deposits.

As of June 30, 2008, the System held $161,801,000 of investments issued by the Federal National Mortgage Association (including non-USD), which represents 8.2% of total investments. As of June 30, 2007, the System held $186,353,000 of investments issued by the Federal National Mortgage Association (including non-USD), which represents 8.8% of total investments.

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following tables provide information as of June 30, 2008, concerning the fair value of investments, interest rate risk, and international currency risk:

Investment Maturities at Fair Value

As of June 30, 2008
(Dollars in thousands)

	0-3 Months	3-6 Months	6 months-1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
Domestic								
U.S. Treasury Securities	$ 6,111	$ 3,029	$ -	$ 7,541	$ -	$ 2,975	$ 19,656	$ 19,754
GNMA	17,520	-	-	-	-	5,869	23,389	23,431
Other U.S. Gov't Agency Securities	-	-	-	466	660	6,065	7,191	7,064
FHLMC	5,686	1	-	292	7,291	35,666	48,936	48,604
FNMA	15,796	-	51	5,143	16,752	124,059	161,801	161,565
Asset Backed Securities	-	-	-	14,669	12,713	7,155	34,537	34,450
Collateralized Mortgage Obligations	-	-	-	1,927	-	64,194	66,121	69,040
Corporate Bonds	-	252	603	43,261	68,698	55,918	168,732	178,165
Collective Short-Term Investments	38,340	-	-	-	-	-	38,340	38,340
Total Domestic Fixed Maturity	**83,453**	**3,282**	**654**	**73,299**	**106,114**	**301,901**	**568,703**	**580,413**
International								
Government Bonds								
British Pound	-	-	-	-	-	1,676	1,676	1,750
Canadian Dollar	-	-	-	165	229	-	394	353
Colombian Peso	-	-	-	147	436	72	655	633
Euro Currency	-	-	6,744	2,433	10,474	8,558	28,209	25,836
Indonesian Rupiah	-	-	-	691	-	-	691	725
Japanese Yen	-	-	-	14,645	7,586	6,499	28,730	26,305
New Zealand Dollar	-	-	-	-	651	-	651	639
Polish Zloty	-	-	-	-	1,413	-	1,413	1,104
Singapore Dollar	-	-	-	3,618	-	-	3,618	3,190
Swiss Franc	-	-	-	490	-	-	490	497
United States Dollar Denominated	-	-	-	-	-	2,027	2,027	1,761
Total International Government Bonds	**-**	**-**	**6,744**	**22,189**	**20,789**	**18,832**	**68,554**	**62,793**
Corporate Bonds								
British Pound	-	-	-	987	2,979	797	4,763	5,220
Canadian Dollar	-	-	-	-	747	62	809	783
Euro Currency	-	-	-	5,162	5,518	905	11,585	10,840
Indonesian Rupiah	-	-	-	554	-	-	554	378
Japanese Yen	-	-	-	155	3,096	-	3,251	3,187
Malaysian Ringgit	-	-	-	3,058	-	-	3,058	2,920
South Korean Won	-	-	619	728	201	-	1,548	1,636
Swiss Franc	-	-	873	-	-	-	873	712
United States Dollar Denominated	359	-	-	1,186	2,935	5,869	10,349	10,704
Total International Corporate Bonds	**359**	**-**	**1,492**	**11,830**	**15,476**	**7,633**	**36,790**	**36,380**
Total International Fixed Maturity	**359**	**-**	**8,236**	**34,019**	**36,265**	**26,465**	**105,344**	**99,173**
Derivatives	(35)	-	-	-	-	-	(35)	(57)
TOTAL FIXED MATURITY	**$83,777**	**$3,282**	**$8,890**	**$107,318**	**$142,379**	**$328,366**	**$674,012**	**$679,529**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

Type of Investment	*Total Fair Value*	*Cost*
Equity		
Domestic	$307,820	$306,070
Pooled Domestic Equity	355,892	269,055
Total Domestic Equity	**663,712**	**575,125**
International		
Australian Dollar	5,673	5,033
Brazilian Real	8,518	6,277
British Pound	26,511	22,440
Canadian Dollar	6,754	4,809
Czech Koruna	1,495	1,172
Danish Krone	1,925	1,463
Euro Currency	46,736	39,184
Hong Kong Dollar	7,667	8,045
Indonesian Rupiah	3,222	2,579
Japanese Yen	21,503	16,800
Malaysian Ringgit	370	530
Mexican Peso	1,390	1,163
Norwegian Krone	1,104	433
Polish Zloty	642	597
Singapore Dollar	799	848
South African Rand	1,412	1,251
South Korean Won	3,692	4,239
Swedish Krona	1,786	1,696
Swiss Franc	14,755	14,261
USD Denominated	58,036	50,891
Pooled Foreign Equity	80,451	32,783
Total Foreign Equity	**294,441**	**216,494**
TOTAL EQUITIES	**958,153**	**791,619**
Private Equity	**57,260**	**54,068**
Real Estate	**113,681**	**99,472**
Total Private Equity and Real Estate	**170,941**	**153,540**
Forward International Currency Contracts, Net	**81**	**-**
Securities Lending Collateral Investment Pool*	**173,443**	**173,443**
TOTAL INVESTMENTS	**$1,976,630**	**$1,798,131**

*See Note 4

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following tables provide information as of June 30, 2007, concerning the fair value of investments, interest rate risk, and international currency risk:

Investment Maturities at Fair Value

As of June 30, 2007
(Dollars in thousands)

	0-3 Months	3-6 Months	6 months-1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
Domestic								
U.S. Treasury Securities	$ -	$ 10,923	$ 8,888	$ 18,759	$ -	$ 2,217	$ 40,787	$ 40,932
GNMA	-	-	-	-	-	1,049	1,049	1,078
Other U.S. Gov't Agency Securities	-	-	-	430	955	9,811	11,196	11,277
FHLMC	8,677	-	-	516	5,297	39,533	54,023	54,634
FNMA	14,638	-	-	4,378	10,531	155,746	185,293	187,777
Asset Backed Securities	-	-	-	25,387	8,440	9,494	43,321	43,406
Collateralized Mortgage Obligations	-	-	-	2,019	-	46,020	48,039	49,495
Corporate Bonds	2,070	1,639	1,243	34,005	37,197	42,755	118,909	118,227
Collective Short-Term Investments	79,751	-	-	-	-	-	79,751	79,751
Total Domestic Fixed Maturity	**105,136**	**12,562**	**10,131**	**85,494**	**62,420**	**306,625**	**582,368**	**586,577**
International								
Government Bonds								
British Pound	-	-	-	1,374	404	1,966	3,744	3,822
Canadian Dollar	-	-	-	154	1,251	-	1,405	1,361
Colombian Peso	-	-	-	152	514	95	761	633
Euro Currency	-	-	-	7,747	6,182	9,049	22,978	23,627
Japanese Yen	5,802	-	3,142	5,031	4,248	2,826	21,049	22,656
Mexican Peso	-	-	-	-	-	416	416	413
New Zealand Dollar	-	-	-	-	644	-	644	639
Norwegian Krone	-	-	-	1,008	1,264	-	2,272	2,180
Polish Zloty	-	-	-	-	1,119	-	1,119	1,104
Singapore Dollar	-	-	-	3,476	-	-	3,476	3,439
South African Rand	-	-	-	918	-	-	918	1,019
Swedish Krona	-	-	-	2,257	-	-	2,257	2,235
United States Dollar Denominated	-	-	-	-	711	1,188	1,899	1,854
Total International Government Bonds	**5,802**	**-**	**3,142**	**22,117**	**16,337**	**15,540**	**62,938**	**64,982**
Corporate Bonds								
British Pound	-	-	-	1,990	2,079	423	4,492	4,455
Canadian Dollar	-	-	-	-	719	47	766	756
Euro Currency	-	-	-	3,144	3,145	245	6,534	6,379
Iceland Krona	-	-	1,121	-	-	-	1,121	973
Indonesian Rupiah	-	-	-	422	-	-	422	378
Japanese Yen	-	-	-	5,558	2,829	1,559	9,946	10,475
Malaysian Ringgit	-	-	-	2,213	-	-	2,213	2,230
Mexican Peso	-	-	-	-	302	942	1,244	1,248
South Korean Won	-	-	-	1,504	-	-	1,504	1,398
Swiss Franc	-	-	-	1,132	-	-	1,132	1,119
United States Dollar Denominated	549	-	-	535	5,162	3,264	9,510	9,389
Total International Corporate Bonds	**549**	**-**	**1,121**	**16,498**	**14,236**	**6,480**	**38,884**	**38,800**
Total International Fixed Maturity	**6,351**	**-**	**4,263**	**38,615**	**30,573**	**22,020**	**101,822**	**103,782**
TOTAL FIXED MATURITY	**$111,487**	**$12,562**	**$14,394**	**$124,109**	**$92,993**	**$328,645**	**$684,190**	**$690,359**

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

Type of Investment	*Total Fair Value*	*Cost*
Equity		
Domestic	$ 371,944	$ 299,397
Pooled Domestic Equity	412,623	272,725
Total Domestic Equity	**784,567**	**572,122**
International		
Australian Dollar	8,731	5,523
Brazilian Real	4,714	3,353
British Pound	27,733	22,452
Canadian Dollar	10,827	7,628
Danish Krone	1,263	653
Euro Currency	68,905	47,044
Hong Kong Dollar	3,207	1,554
Japanese Yen	42,051	31,948
Mexican Peso	1,516	1,157
Norwegian Krone	6,771	4,629
Polish Zloty	1,213	915
Singapore Dollar	1,697	1,538
South African Rand	738	456
South Korean Won	5,816	3,329
Swedish Krona	7,257	3,910
Swiss Franc	7,940	5,891
USD Denominated	41,360	29,544
Pooled Foreign Equity	106,014	37,451
Total Foreign Equity	**347,753**	**208,975**
TOTAL EQUITIES	**1,132,320**	**781,097**
Private Equity	**26,956**	**28,289**
Real Estate	**81,332**	**69,695**
Total Private Equity and Real Estate	**108,288**	**97,984**
Forward International Currency Contracts, Net	**(41)**	**-**
Securities Lending Collateral Investment Pool*	**193,918**	**193,918**
TOTAL INVESTMENTS	**$2,118,675**	**$1,763,358**

*See Note 4

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following table provides information as of June 30, 2008 concerning credit risk:

Ratings of Fixed Maturities for June 30, 2008 *(Dollars in thousands)*

S&P Quality Rating	*Fair Value*	*Fair Value as a Percentage of Total Fixed Maturity*
Unrated Agency	$ 239,961	35.6%
AAA	161,853	24.0%
AA	40,078	5.9%
A	67,748	10.1%
BBB	57,672	8.5%
BB	21,734	3.2%
B	21,543	3.2%
CCC & Below	28	0.0%
Unrated*	63,395	9.4%
TOTAL	**$674,012**	**100.0%**

** Includes Collective Short Term Investment Fund and Derivatives*

The following table provides information as of June 30, 2007 concerning credit risk:

Ratings of Fixed Maturities for June 30, 2007 *(Dollars in thousands)*

S&P Quality Rating	*Fair Value*	*Fair Value as a Percentage of Total Fixed Maturity*
Unrated Agency	$248,546	36.3%
AAA	180,984	26.5%
AA	27,792	4.1%
A	37,170	5.4%
BBB	45,018	6.5%
BB	20,707	3.0%
B	16,186	2.4%
CCC & Below	5	0.0%
Unrated*	107,782	15.8%
TOTAL	$684,190	100.0%

** Includes Collective Short-Term Investment Fund*

International Forward Currency Contracts - The System has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2008 and 2007, the System's net position in these contracts is recorded at fair value as international forward currency contracts. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. The System's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2008, total commitments in forward currency contracts to purchase and sell international currencies were $6,957,000 and $6,957,000, respectively, with market values of $6,955,000 and $6,874,000 respectively. As of June 30, 2007, total commitments in forward currency contracts to purchase and sell international currencies were $10,008,000 and $10,008,000, respectively, with market values of $10,003,000 and $10,044,000, respectively. The System's commitments relating to forward currency contracts are settled on a net basis.

NOTE 4 – SECURITIES LENDING PROGRAM

The San José municipal code and the investment policy, adopted by the Board, permit the use of a securities lending program with its principal custodian bank. The System does not have a threshold for securities lending. (The investment policy requires that loan maturities cannot stretch beyond one year, and no more than 15% of the portfolio can be lent longer than six months.) The System has a custodial agreement with the Northern Trust Company, which authorizes the Northern Trust Company to loan securities in the System's investment portfolio under such terms and conditions as the Northern Trust Company deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The System receives a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, the Northern Trust Company is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the Northern Trust Company is required to credit the System's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the System or borrowers.

Securities lending collateral represents investments purchased with cash collateral, as well as securities collateral that may be pledged or sold without a default by the borrower. Securities lending collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the statement of net assets. The System does not match the maturities of investments made with cash collateral with the securities on loan.

The System authorized the Northern Trust Company to invest and reinvest cash collateral in Northern Trust's pooled investment vehicle which must have weighted average life of 60 days or less. Securities with maturities of 13 months or more must have a rating of A or better. Securities with maturities of less than 13 months are rated at least P-3. As of June 30, 2008, the size of the cash collateral pooled vehicle was $75.36 billion and the weighted average life of 36 days. The cash collateral investments included time deposits (10% of the pool), repurchase agreements (26%), asset backed securities (19%), certificates of deposit (17%), variable rate securities (14%),

Notes to Basic Financial Statements *Continued*

NOTE 4 – SECURITIES LENDING PROGRAM *Continued*

commercial paper (12%) and other bank notes (2%). As of June 30, 2007, the size of the cash collateral pooled vehicle was $95.7 billion and the weighted average life of 39 days. The cash collateral investments included time deposits (12% of the pool), repurchase agreements (21%), asset backed securities (16%), certificates of deposit (14%), variable rate securities (14%), commercial paper (19%) and other bank notes (4%). All of the underlying investments of the System's securities lending cash collateral are held by the counterparty, not in the name of the System.

The loaned securities as of June 30, 2008 and 2007, consisted of U.S. Treasury securities, U.S. government agency securities, international government bonds, domestic corporate bonds, domestic equity securities, and international equity securities and international corporate bonds. In return, the System receives collateral in the form of cash or securities equal to at least 102% of the transferred securities plus accrued interest for reinvestment.

As of June 30, 2008, the underlying securities loaned by the System as a whole amounted to approximately $172,081,000. The cash collateral and the non-cash collateral totaled $173,443,000 and $3,911,000, respectively. As of June 30, 2007, the underlying securities loaned by the System as a whole amounted to approximately $194,984,000. The cash collateral and the non-cash collateral totaled $193,918,000 and $5,904,000, respectively. The System has no exposure to credit risk related to the securities lending transactions as of June 30, 2008 and 2007.

As of June 30, 2008 and 2007, the fair value of the collateral provided was 103.1% and 102.5%, thus meeting the System's policy of 102%.

Securities Lending – Investment and Collateral Received

(At Fair Value in thousands)

Type of Investment Lent	*2008*	*2007*
For Cash Collateral		
U.S. government and agencies	$2,249	$130
Domestic corporate bonds	21,933	20,921
Domestic equity securities	101,546	103,041
U.S. treasury notes and bonds	19,883	39,919
International government bonds	7,524	3,239
International equity securities	13,543	21,600
International corporate bonds	1,626	337
Total Lent for Cash Collateral	**$168,304**	**$189,187**
For Non-Cash Collateral		
Domestic corporate bonds	-	2,196
Domestic equity securities	3,054	1,648
U.S. treasury notes and bonds	-	835
International equity securities	723	1,118
Total Lent for Non-Cash Collateral	**3,777**	**5,797**
TOTAL SECURITIES LENT	**$172,081**	**$194,984**

Type of Collateral Received	*2008*	*2007*
Cash Collateral	**$173,443**	**$193,918**
Non-Cash Collateral		
For lent domestic corporate bonds	-	2,181
For lent domestic equity securities	3,147	1,694
U.S. treasury notes and bonds	-	853
For lent international equity securities	764	1,176
Total Non-Cash Collateral	**3,911**	**5,904**
TOTAL COLLATERAL RECEIVED	**$177,354**	**$199,822**

Notes to Basic Financial Statements *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY

Contributions to the Defined Benefit Pension Plan by both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2008 and 2007, were as follows:

Period	*City*	*Employee*
6/29/08 – 6/30/08	18.31%	4.28%
7/1/07 – 6/28/08	18.16%	4.26%
7/2/06 – 6/30/07	18.16%	4.26%
7/1/06	14.96%	4.26%

The funding status of the Defined Benefit Pension Plan as of June 30, 2007, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

Acturial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded (Overfunded) AAL (UAAL) (b-a)*	*Funded Ratio (a)/(b)*	*Annual Covered Payroll (c)*	*UAAL as a % of Covered Payroll ((b)-(a)/(c))*
6/30/07	$1,622,851	$1,960,943	$338,092	83%	$291,405	116%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and long term rates of return to be generated by the assets of the fund. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The significant actuarial methods and assumptions used to compute the actuarially determined annual required contribution are as follows:

Description	*Method/Assumption*
Valuation date	June 30, 2005 & June 30, 2007*
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	30 years, open
Actuarial asset valuation method	5 year smoothed market
Actuarial Assumptions:	
Assumed rate of return on investments	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.
Postretirement mortality	Tables based on current experience
Active service, withdrawal, death, disability service retirement	4.25
Salary increases	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service.
Cost-of-living adjustments	3.0% a year

** The System performs biannual actuarial valuations to establish contribution rates for the following two fiscal years. For fiscal years ended June 30, 2007, and 2008; contribution rates were based on the actuarial valuation performed as of June 30, 2005. The actuarial valuation assumptions for June 30, 2007 are the same as those for 2005.*

Notes to Basic Financial Statements *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY *Continued*

The schedules presented as required supplementary information following the notes to the financial statements, present multi-year trend information. The Schedule of Funding Progress for the Defined Benefit Pension Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Defined Pension Plan presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 6 – DEFINED POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions – Contributions to the Defined Postemployment Healthcare Benefit Plan are made by both the City and the participating employees. Contributions for the fiscal years ended June 30, 2008 and 2007, are based upon an actuarially determined percentage of each employee's base salary prior to the requirements of GASB Statement No. 43. The contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43. The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2008 and 2007 for the Defined Postemployment Healthcare Benefit Plan were as follows:

Period	*City*	*Employee*
6/29/08 – 6/30/08	5.25%	4.65%
7/1/07 – 6/28/08	3.82%	3.32%
7/2/06 – 6/30/07	3.82%	3.32%
7/1/06	2.16%	1.80%

The funding status of the Defined Postemployment Healthcare Plan as of June 30, 2006, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

Acturial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded (Overfunded) AAL (UAAL) (b-a)*	*Funded Ratio (a)/(b)*	*Annual Covered Payroll (c)*	*UAAL as a % of Covered Covered Payroll ((b)-(a)/(c))*
6/30/06	$81,288	$702,939	$621,651	12%	$275,559	226%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Notes to Basic Financial Statements *Continued*

NOTE 6 – DEFINED POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS *Continued*

The significant actuarial methods and assumptions used to compute the actuarially determined annual required contribution are as follows:

Description	*Method/Assumption*
Valuation Date	June 30, 2006
Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level percentage of payroll
Remaining Amortization Period	30 years, open
Actuarial Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Discount rate	5.6%†
Inflation rate	4.0%
Projected payroll increases	4.25
Health Care Cost Trend Rate:	
Medical	The valuation assumes that future medical inflation will be at a rate of 12% per annum graded down each year in 1% increments to an ultimate rate of 4%.
Dental	Dental inflation is assumed to be 6% graded down to 4% over a nine year period.

†*Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.*

Notes to Basic Financial Statements *Continued*

NOTE 6 – DEFINED POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Continued

The schedules presented as required supplementary information following the notes to the financial statements, present multi-year trend information. The Schedule of Funding Progress for the Defined Postemployment Healthcare Benefit Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Defined Postemployment Healthcare Benefit Plan presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC) determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 7 – SUBSEQUENT EVENTS

City Contribution Prefunding – On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.28 of Title 3 of the San Jose Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the System.

On June 12, 2008, the Board of Administration for the System approved the actuarially determined prepayment amount of $63,458,201 which was paid by the City on August 1, 2008, for biweekly contributions to be made for the 24 pay dates from August 1, 2008, through June 19, 2009.

Impact of the Financial Market Deterioration

The rapid deterioration of the financial markets since June 30, 2008 has been serious and historic in proportion. In September 2008, the U.S. Treasury placed government sponsored enterprises Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) into conservatorship and committed to provide as much as $100 billion to each company to backstop any shortfalls in capital through 2009, which protected the principal and interest payments on their debt. In addition, the federal government recently assumed control of American International Group Inc. (AIG), the largest insurance company in the United States; Lehman Brothers, the 4th largest investment bank in the US filed for bankruptcy; and Washington Mutual Inc. was seized by government regulators and its branches and assets sold to JPMorgan Chase & Co. On October 3, 2008, the President of the United States signed into law the $700 billion Emergency Economic Stabilization Act of 2008 in an effort to address the economic crisis.

The System's exposure to the collapse of individual companies is not significant, since the System's investments are well diversified among various asset classes which are benchmarked against different indices. However, the System is exposed to general market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 8.25%. Market risk could impact the financial condition of the System and the City's required contribution towards the System. The System's actuarial valuations use a five year smoothing method for investment returns. This means that current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. Any contribution rate impact from the capital markets depends in large measure on how deep the future market downturn is, how long it lasts, and how it fits within the fiscal year reporting periods as the actuarial valuation is performed once every two years.

The fair value of the System's assets as of June 30 and September 30, 2008 (based on available information) were $1,803,233,000 and $1,682,148,000, respectively, excluding Securities Lending. The fair value of the portfolio declined approximately 6.7% during the quarter ended September 30, 2008, (based on available information). The fair value of the System's current equity and fixed income investments related to AIG, Lehman Brothers, and Washington Mutual as of September 30, 2008, (based on available information) was approximately $6,055,000 or 0.36% of the total investment portfolio.

For the fiscal year ended June 30, 2008, the System's portfolio declined by 3.1% while other public funds declined an average of 4.4% and the S&P 500 declined approximately 13.1%. The Department of Retirement Services is working with the System's Investment Consultant to reduce the System's exposure to general market risk by improving its portfolio diversification and increasing the long-term allocation to alternative investments that are not correlated to public market activity.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN (Unaudited)

(Dollars in thousands)

Acturial Valuation Date	Actuarial Value of Assets[(a)]	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll [(b)]	Unfunded AAL as a % of Annual Covered Payroll
June 30, 2001	$1,060,144	$1,072,333	$12,189	99%	$252,696	5%
June 30, 2003	1,280,719	1,311,691	30,972	98%	292,961	11%
June 30, 2005	1,384,454	1,711,370	326,916	81%	286,446	114%
June 30, 2007	1,622,851	1,960,943	338,092	83%	291,405	116%

Actuarial valuations have been performed bi-annually through June 30, 2007.

(a) Reported at "smoothed market" value determined using a technique that smooths the effect of short-term volatility in the market value of investments over a five-year period.

(b) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN (Unaudited)

For the six fiscal years ended June 30, 2008

(Dollars in thousands)

Fiscal Year Ended June 30,	Annual Required Employer Contributions	Percentage Contributed
2003	$38,411	100%
2004	39,534	100%
2005	41,552	100%
2006	41,267	100%
2007	51,004	100%
2008	54,958	100%

POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN (Unaudited)

(Dollars in thousands)

SCHEDULE OF FUNDING PROGRESS

Acturial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b)-(a)/c))
June 30, 2006	$81,288	$702,939	$621,651	12%	$275,559	226%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Year Beginning	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2007	$38,526	$10,728	28%
June 30, 2008	$38,526	$11,560	30%

Other Supplementary Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2008

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total*
ASSETS			
Receivables:			
Employee contributions	$ 430	$ 135	$ 565
Employer contributions	1,818	543	2,361
Brokers and others	61,551	20,669	82,220
Accrued investment income	5,228	1,737	6,965
Total receivables	**69,027**	**23,084**	**92,111**
Investments, at fair value:			
Securities and Other:			
U.S. Treasury notes and bonds	13,661	4,958	18,619
U.S. government agency securities	167,725	60,865	228,590
International government bonds	47,647	17,291	64,938
Domestic corporate bonds	187,236	67,946	255,182
International corporate bonds	25,571	9,279	34,850
Domestic equity securities	461,306	167,402	628,708
International equity securities	204,648	74,264	278,912
Private market equity	39,798	14,442	54,240
International forward currency contracts	57	20	77
Derivative Instruments	(24)	(9)	(33)
Collective short-term investment funds	26,650	9,669	36,319
Real estate	80,728	26,827	107,555
Securities lending cash collateral investment pool	122,867	41,253	164,120
Total investments	**1,377,870**	**494,207**	**1,872,077**
TOTAL ASSETS	**1,446,897**	**517,291**	**1,964,188**
LIABILITIES			
Payable to brokers	87,086	29,240	116,326
Securities lending collateral due to borrowers	122,867	41,253	164,120
Other liabilities	1,529	477	2,006
TOTAL LIABILITIES	**211,482**	**70,970**	**282,452**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$1,235,415**	**$446,321**	**$1,681,736**

Other Supplementary Information *Continued*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2008

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total*
ADDITIONS			
Contributions:			
Employee	$ 10,309	$ 3,057	$ 13,366
Employer	42,308	12,650	54,958
Total Contributions	**52,617**	**15,707**	**68,324**
Investment income:			
Net appreciation in fair value of investments	(78,849)	(20,565)	(99,414)
Interest income	24,114	8,072	32,186
Dividend income	6,561	2,196	8,757
Net rental income	3,608	1,211	4,819
Less investment expense	(5,513)	(1,870)	(7,383)
Net investment income before securities lending income	**(50,079)**	**(10,956)**	**(61,035)**
Securities lending income:			
Earnings	6,089	2,035	8,124
Rebates	(5,156)	(1,723)	(6,879)
Fees	(233)	(78)	(311)
Net securities lending income	**700**	**234**	**934**
Total investment income	**(49,379)**	**(10,722)**	**(60,101)**
TOTAL ADDITIONS	**3,238**	**4,985**	**8,223**
DEDUCTIONS			
Retirement benefits	66,685	16,606	83,291
Death benefits	3,865	2,398	6,263
Refund of contributions	830	142	972
Administrative expenses and other	1,779	579	2,358
TOTAL DEDUCTIONS	**73,159**	**19,725**	**92,884**
Net decrease	(69,921)	(14,740)	(84,661)
PLAN NET ASSETS HELD IN TRUST FOR			
Pension benefits:			
BEGINNING OF YEAR	**1,305,336**	**461,061**	**1,766,397**
END OF YEAR	**$1,235,415**	**$446,321**	**$1,681,736**

Other Supplementary Information *Continued*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2008 and 2007

	2008			2007
	Original Budget	*Actual*	*Variance Positive/(Negative)*	*Actual*
Personal services	$ 1,666,117	$ 1,533,562	$ 132,555	$ 1,420,617
Non-personal/equipment	613,800	618,555	(4,755)	403,707
Professional services	378,500	340,385	38,115	125,226
TOTAL ADMINISTRATIVE EXPENSES AND OTHER	**$2,658,417**	**$2,492,502**	**$165,915**	**$1,949,550**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007
Equity:		
Domestic equity	$ 1,976,988	$ 1,911,549
International equity	1,892,194	1,772,220
Private equity	856,426	741,982
Total equity	**4,725,608**	**4,425,751**
Fixed income:		
Domestic fixed income	1,042,222	919,340
Global fixed income	398,739	372,912
Total fixed income	**1,440,961**	**1,292,252**
Real estate	1,389,492	993,413
Total investment managers' fees	**7,556,061**	**6,711,416**
Other investment service fees:		
Investment consultant	212,500	120,000
Proxy voting	11,500	3,900
Real estate legal fees	13,198	449
Real estate appraisal	4,450	-
Custodian	250	5,855
Total other investment service fees	**241,898**	**130,204**
TOTAL INVESTMENT EXPENSES	**$7,797,959**	**$6,841,620**

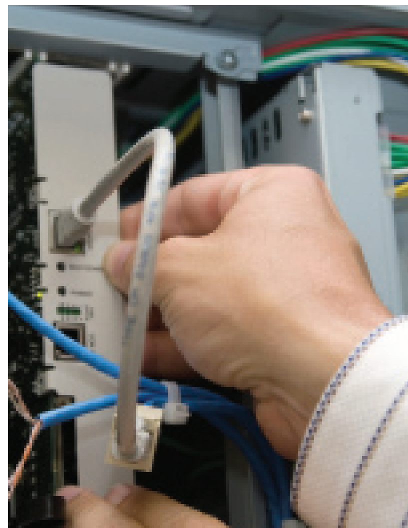
Other Supplementary Information *Continued*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2008 and 2007

Firm	Nature of Service	2008	2007
Levi, Ray & Shoup	Web Development, Maintenance and Hosting	$ 16,621	$ 17,595
Levi, Ray & Shoup	Document Imaging & Support and Maintenance	4,551	7,665
Macias Gini & O'Connell LLP	External Auditors	83,979	32,008
Avery, William, & Associate	Human Resource Consultant	9,127	-
Medical Director/Other Medical	Medical Consultant	26,830	26,191
Pension Benefit Information	Reports on Beneficiary Deaths	2,112	3,146
Saltzman & Johnson	Legal Counsel	42,175	9,871
Wilfred Jarvis Institute	Human Resource Consultant	4,308	-
The Segal Company	Operational and HIPPA compliance audit	40,000	-
Gabriel, Roeder, Smith & Company	Actuarial Consultant	110,682	28,750
TOTAL		**$340,385**	**$125,226**

Investment Section



City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Report on Investment Activity

Strategic Investment Solutions, Inc.

Strategic Investment Solutions, Inc.
333 Bush Street, Suite 2000
San Francisco, CA 94104

415-362-3484 phone
415-362-2752 fax

August 25, 2008

Mr. Russell Crosby
Director of Retirement Services
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Crosby:

Fiscal year 2008 witnessed the onset of what has become known to global investors as the "credit crisis." What began with softness in some overheated regional housing markets and attendant problems in highly leveraged mortgage derivative pools grew into a financial market dislocation and a near seizing of the global credit markets. At several points during the year the crisis seemed to threaten the foundation of the US financial system. Fiscal 2008 also saw the additional trauma of a dramatic jump in the prices of many key commodities, especially energy and food.

By the fall of 2007, worries over the sub-prime mortgage market began to dampen broad economic forecasts and virtually halted corporate lending activity. Along with rising commodity prices, a shadow formed over the US stock market, particularly the Financial and Consumer Discretionary sectors. Over the last year, equity and credit markets have been on edge, featuring large daily swings, both up and down, but primarily down. Though the US did not officially enter a recession during the year, consumer and investor confidence broadly foreshadowed one in the near term. The combination of financial market turmoil, lower home prices and higher food and energy prices has created a highly stressful environment for consumers and investors alike.

The Federal Reserve aggressively addressed the potential systemic risk to the financial system by cutting banks' overnight lending rate from 5.25% at the beginning of the year all the way down to 2.00% by fiscal year end. The Federal Reserve also took the extraordinary steps of managing the merger of Bear Stearns with JP Morgan, extending the term of its official lending program, and opening its discount window to investment banks. At year end, fallout from the crisis in the form of an ongoing deleveraging and recapitalization of financial company balance sheets and the downward repricing of financial assets continues, and the capital markets remain highly uncertain and volatile.

Against this difficult macro backdrop, Global Equities specifically, and risk assets in general, struggled against negative sentiment. The broad US Equity market, as measured by the Russell 3000 Index, declined 12.7% during the year. The Russell 1000 large cap component of US Equity fell 12.4%, while the small cap Russell 2000

Report on Investment Activity *Continued*

Strategic Investment Solutions, Inc.

fared even worse, falling 16.2%. International Equity investments, with some help from the falling US dollar, performed better for dollar-based investors, as the Developed Markets index lost 10.2%, while Emerging Markets lost 11.6%. Investment Grade US Bonds (Lehman Aggregate) provided some shelter for investors, returning 7.1% for the year. However, high yield bonds returned -2.1%, reflecting the difficult credit environment during the year. The NCREIF Index of institutional Real Estate posted a positive 9.3% return.

Plan Investment Results

For the year, the Federated City Employees' Retirement System of San Jose (the System) returned -3.1%, slightly below the -2.9% return on its Policy Index, and far below the System's 8.25% actuarial return expectation. Though this absolute return was disappointing, the System performed very well relative to its peers, managing to perform 1.3% above the Independent Consultants Cooperative (ICC) Large Public Fund Universe median return of -4.4%, placing the System in the 26th percentile of the universe. The System's strong showing versus its peers was due largely to active manager returns in the Equity and Real Estate asset classes, while a small but growing exposure to Private Equity investments also bolstered total plan returns.

The System's US Equity portfolio outperformed its equity policy benchmark by 1.2% during the fiscal year. Approximately half of the US Equity assets were invested in a Northern Trust passive Russell 3000 Index Fund that effectively matched its benchmark's return. The other half of US Equity assets were invested in a diverse set of active strategies that in aggregate outperformed the US equity benchmark index. Noteworthy performance was achieved by the system's two growth managers, each of whom outperformed their style benchmarks by wide margins.

During fiscal year 2008, the System's International Equity composite returned -7.2% versus the benchmark's return of -6.2%. Although the composite return trailed the broad international equity benchmark, it was 2.5% above the median international equity composite return, thus contributing to the System's high Total Plan peer rank.

The Plan's Total Fixed Income portfolio return of 6.8% slightly lagged the Lehman Aggregate Index's 7.1% return for the fiscal year. Though this result fell slightly short of the benchmark, again in this asset class it was a good result relative to its peers, as the international bond component contributed high returns in the weak US dollar environment.

For the year ended June 2008, NCREIF posted a 9.3% return while the System's Real Estate composite posted a return of 10.7%, providing a strong offset to the Plan's predominantly negative equity returns.

Asset Allocation and Manager Structure

During the year, the System completed a full Asset Liability Study to re-examine its total plan strategic allocation targets. The study suggested a greater weight to International Equity and slightly greater exposure

Report on Investment Activity *Continued*

STRATEGIC INVESTMENT SOLUTIONS, INC.

to Private Equity. As a result, the Plan will increase its international Equity allocation from 15% to 20%, and its Private Equity allocation from 3% to 5%.

During fiscal year 2008, the Plan also undertook a study of its major asset classes to evaluate its manager structures in US and International Equity, and Fixed Income. At year end, the implementation of the results of the asset class manager structures is pending while the plan completes the last phase of its strategic planning cycle by re-examining all of its individual manager investment mandates.

In keeping with its strategic design, the Federated City Employees' Retirement System of San Jose portfolio continues to generate strong returns for its participants in a risk averse, prudent fashion. Though in the difficult investment environment of fiscal year 2008 the System did not meet its actuarial return expectation, its relatively good performance during the year did help achieve a five year return of 9.5%, which is handily above the System's long term return expectation. SIS believes that the strategic initiatives currently under implementation will help to ensure that the System continues to perform well and meet its obligation to participants in the future.

Sincerely,

Patrick Thomas, CFA
Vice President

NOTE: *Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. The performance calculation methodology is consistent with the CFAI Global Investment Performance Standards.®*

Statement of Investment Policy

The purpose of this Investment Policy Statement (IPS) is to assist the San Jose Federated City Employees' Retirement System's Board (Board) and its delegate in effectively supervising, monitoring and evaluating the investment of the System's assets.

The System's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.
- Setting forth an investment structure for managing all the System's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for the investment System that control the level of overall risk and liquidity assumed in that System, so that all the System's assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Board, the investment consultant(s) and the money managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.
- Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the System's assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate. Highlights of the IPS are outlined below:

The objectives of the System have been established in conjunction with a comprehensive review of the current and projected financial requirements. The Board shall:

(1) Require that the Retirement System be sufficiently funded to assure that all disbursement obligations will be met.

(2) Attempt to insure that the investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.

(3) Strive for the highest total return on investment funds consistent with safety in accordance with accepted investment practices and maintain an appropriate asset allocation policy that is compatible with the objectives of the System.

(4) Control costs of administering the System's assets and managing the investments.

(5) Outperform passively managed portfolio invested in the proportions described in the Plan's Asset Allocation targets

(6) Perform in the top 50% of a broad universe of Public Pension Plans.

Asset Allocation Policy

The following policy has been identified by the Board as having the greatest expected investment return and the resulting positive impact on asset values and funded status without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to stocks and bonds.

It shall be the Policy of the System to invest its assets in accordance with the maximum and minimum range, valued at market value, for each asset class as stated below:

ASSET ALLOCATION WITHOUT PRIVATE MARKETS

Asset Class	Minimum	Target	Maximum
Domestic Equity	38%	43%	48%
International Equity	10%	15%	20%
Domestic Bonds	24%	29%	34%
Global Bonds	4%	7%	10%
Real Estate	3%	6%	9%

The Board approved to continue using asset allocation targets "without Private Markets" until the completion of the new Asset Liability Modeling (ALM) study initiated this year.

ASSET ALLOCATION WITH PRIVATE MARKETS

Asset Class	Minimum	Target	Maximum
Domestic Equity	30%	35%	40%
International Equity	10%	15%	20%
Domestic Bonds	29%	34%	39%
Global Bonds	4%	7%	10%
Real Estate	3%	6%	9%
Private Markets	0%	3%	6%

The investment policy is expected to have a high likelihood of meeting the objectives outlined in the "Statement of Investment Objectives" section which preceded this section.

(Procedure 620.2)
The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The

Statement of Investment Policy *Continued*

policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

The Investment Policy and the strategic asset allocation are determined using certain capital market assumptions. These assumptions include the expected median return and standard deviation for each asset category and the expected correlation coefficients among the asset classes. When these presumptions change materially, the policy needs to be modified to compensate for those changes so that the Retirement System remains sufficiently funded to meet all distribution needs.

Time Horizon

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short-term nature. The Director of Retirement Services will review the asset mix of the Plan on a semi-monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in Procedure 620.3-F. Additionally, the Board will review the strategic asset allocation on an annual basis to determine if there is a need to make any changes. A formal asset liability study will be conducted every 3 to 5 years.

Risk Tolerances and Volatility

The Board recognizes the difficulty of achieving the System's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the System's long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered.

Rebalancing of Strategic Allocation

(Procedure 620.3-F)

The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to rebalance to within the target ranges by means of asset transfers among the categories.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the System.

General guidelines for rebalancing the portfolio are as follows:

1) When the allocation to a particular asset class reaches 95-100% of the maximum or 100-105% of the minimum, the fund will be rebalanced to the target over the following 60 days. The cash surplus within the Fund will be used to rebalance the portfolios. **If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.**

a) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset class, transferred assets shall first consist of cash in the portfolio. If the cash is not sufficient, then the manager will be requested to liquidate that portion of the portfolio which will result in the manager's portfolio coming within the specific target range.

b) Transfers shall first be made to asset classes below the minimums, then to asset classes below the targets, unless the managers in those classes are already holding excess cash or they feel it would be imprudent to increase their size.

c) Transfers to or from the Domestic Stock asset class should be made such that the asset class remains style neutral. The portfolio should remain biased towards large capitalization over small capitalization. Transferred assets shall first consist of cash in the portfolios. If the cash is not sufficient, then the managers will be requested to liquidate that portion of the portfolios which will result in the asset class coming within the specific target range and remaining balanced between Growth and Value.

d) Since the Domestic Equity Class represents a large part of the Fund, it can be balanced internally through the use of secondary targets established within the class. The table below provides an example of how balances within the class are maintained. To determine whether the target is met for each of these categories, a subtotal is computed for the assets held by each group of managers. The percentage of the total portfolio that each group represents is determined, and compared against the target levels. When the allowable variation is exceeded, the procedures for adjustments between asset classes are then applied within the domestic equities class to meet the secondary target levels.

ASSET ALLOCATION MODEL SECONDARY TARGETS, DOMESTIC EQUITIES

Portfolio Category: Form of Investment Management	*As a % of Domestic Equity Portfolio*	*As the Equivalent % of the Total Portfolio*	*Allowable Variation from the % of the Equity Portfolio*
Index Fund	50%	17.4%	+/- 4.5%
Large Cap Value	12%	3.4%	+/- 2.5%
Large Cap Growth	10%	2.9%	+/- 2.5%
Small Cap Value	7%	3.6%	+/- 1.5%
Small Cap Growth	6%	3.1%	+/- 1.5%
All Cap Growth	15%	4.4%	+/- 2.5%

Statement of Investment Policy *Continued*

2) All transfers should be made in accordance with the cash management policy.

3) The less liquid Real Estate and Private Equity investment will be treated separately for purposes of rebalancing in order not to force liquidation of holdings.

Liquidity

The Board has authorized the Director of Retirement Services to review the projected cash flow needs of the System at least annually and indicate to the investment managers the required liquidity. If necessary, cash flow needs will be coordinated through the System's rebalancing procedures as described in the previous section. If additional funds are required from the System's equity managers, the Director will communicate the cash flow requirements giving advanced written notice so the managers have sufficient time to comply.

Diversification

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries.

Specifically, no single investment shall exceed the guidelines established under the Manager and Securities Guidelines section.

As a general rule, System assets placed with an investment manager will not represent more than 10% of that manager's assets.

Supervision

The Investment Manager shall continually supervise the investment securities in the Fund, and shall purchase, sell, substitute, redeem, or convert securities as they should deem advisable.

Brokerage Policy

All transactions effected for the System will be "subject to the best price and execution." The lowest commission rate need not mean the best realized price. Execution capability, price and overall effectiveness shall be considered, along with commission rate.

Any manager who is engaged in or has a direct pecuniary interest in a business other than investment counseling, such as a broker or dealer in securities shall not be permitted to use such business with regard to the System assets without prior written approval by the Board.

If a manager utilizes brokerage from the plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

The Plan's investment managers shall follow the direction of the Board. It is the policy of the Board to instruct the investment managers to direct transaction orders to particular broker-dealers, including equity, fixed income, both domestic and international. The instructions from the Board currently is for the investment managers to direct as much as possible of the Plan's commission business as is practicable, subject to the best price and execution. The instruction and direction is to be construed within the normal activity of the investment manager, with no increased or decreased trading activity to occur because of the instruction. Where given discretion to establish and execute transactions through accounts with one or more broker-dealer firms as it may select, the manager must attempt to obtain "best available price and most favorable execution" with respect to all of the portfolio transactions.

Soft Dollars accumulated through the System's brokerage program may be used to pay for any System expense permitted under the regulations of the Department of Labor (including, but not limited to, legal, accounting, education, management, etc.) and approved by the Board.

Performance Objectives

Investment performance will be measured quarterly but it is not expected that the performance goals identified below will be satisfied in any single quarter or year. It is expected that these goals will be satisfied over a rolling five-year period or a full market cycle. However, action by the Board with regard to retention or dismissal of investment managers is not precluded by virtue of these time periods.

Total Fund Investments

The total fund's performance, in aggregate, will be expected to achieve a rate of return which exceeds a fund benchmark representative of the Asset Allocation objective as follows:

Benchmark	*With Private Markets*	*Without Private Markets*
Russell 1000	28%	34%
Russell 2000	7%	9%
MSCI EA FE and/or ACWI-ex US	15%	15%
Lehman Aggregate Bond Index	34%	29%
Citibank World Govt. Bond Index	7%	7%
NCREIF Property Index	6%	6%
Private Markets (S&P 500 plus 300 basis points)	3%	0%

(Procedure 610.2)

Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to rank in the top half of a database of similarly styled managers, and earn an average return which exceeds an appropriate index over annualized three and five year periods net of fees.

Statement of Investment Policy *Continued*

Managers are considered to have achieved this objective if their performance meets all guidelines on a cumulative three and five year annualized period. If the performance is longer than five years, the manager is expected to satisfy the performance objectives in a majority of the rolling five year periods.

Investment managers with less than five years of experience with the Fund are considered to have achieved performance objectives if their performance meets guidelines for the three year annualized time period or since inception period if the manager's track record is less than three years.

Fixed-Income Investments

The objectives for investment managers of the domestic fixed-income component of the total portfolio are:

(1) Earn an average annual return from income and capital appreciation which exceeds the Lehman Aggregate Bond Index over a three and five year annualized time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results which will rank in the top half of investment managers which utilize a similar investment style.

Domestic Equity Investments

The objectives for investment managers of the domestic equity component of the total portfolio are:

(1) Achieve returns which exceed an appropriate index, (i.e. S&P 500, Russell 2000, etc.) over a three and five year annualized time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results which will rank in the top half of investment managers which utilize a similar investment style.

Passive Equity Investment

The objective for investment managers of the passive domestic equity component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

International Equity Investments

The objectives for investment managers of the international equity component of the total portfolio are:

(1) Achieve returns which exceed an appropriate index (the Morgan Stanley All Country World Ex US Index, MSCI EAFE Index) over a three and five year annualized time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results in the top half of investment managers which utilize a similar style of investment.

Global Fixed-Income Investments

The objective for the investment managers of the global fixed-income component of the total portfolio are:

(1) Achieve rates of return which exceed the Citibank World Government Non-Dollar Bond Index over a three and five year annualized time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

Real Estate Investments

(1) Achieve returns which exceed an appropriate index, (i.e. NCRIEF) net of fees over a market cycle

(2) The real estate manager(s) will be expected to achieve returns that rank in the upper half of a broad universe of real estate funds.

Private Market Investment

The Private Markets portfolio is an illiquid investment with a 10-12 year investment horizon. It is expected to provide a S&P 500 Index return plus 300 basis points over time.

Monitoring of Money Managers

(Procedure 610.4)

It is the Board's policy to monitor the portfolios of the investment managers for prudent adherence to the approved performance guidelines. Quarterly performance will be evaluated to test progress toward the attainment of longer term targets. It is understood that there are likely to be short term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles. In addition, manager holdings will be periodically monitored to ensure that they are adhering to expected investment styles and disciplines.

On a timely basis, but not less than four times a year, the Board will meet to focus on:

- Manager's adherence to the IPS guidelines;
- Material changes in the manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the manager's results to appropriate indices and peer groups as described in the performance objectives and control section.

Statement of Investment Policy *Continued*

The risk associated with the manager's portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

Major organizational changes also warrant immediate review of the manager, including:

- Change in key professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the System's investment managers will be monitored on an ongoing basis and it is at the Board's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

Periodic Reviews of Manager Performance

The performance of each manager will be reviewed versus its benchmark every quarter. These benchmarks consist of both asset class indexes and peer group universes. Each manager's performance should exceed their passive index benchmark and each active manager should be above the median of an appropriate universe.

As good managers will occasionally have poor performance for several periods, there is some grace period permitted for performance to improve. Conversely, the performance will be reviewed with sufficient frequency to permit identification of substandard performance as quickly as possible.

Procedure:

1. Each manager is expected to produce performance equal to or better than their benchmark for three year and five year cumulative periods net of fees.
2. The expectation to produce above median performance in an appropriate peer group for three year and five year cumulative periods will be emphasized only when the majority of investment managers within the peer group are underperforming the benchmark.
3. If a manager has less than five years performance, we will review the periods reported by the consultant, such as one quarter, one year and since inception. However, no action will be taken for placement on the watch list until two years after inception date as long as the firm has not had significant organizational, personnel, or investment philosophy change.
4. If there is a failure to meet the performance objective, the following rules should be applied:

   a) A manager's (with at least two years of performance since inception) failure to meet their objective for four successive quarters will place the manager on the watch list. If a manager is consistently on the borderline, sometimes meeting objectives and sometimes failing to meet objectives, the manager may be placed on the watch list.

   b) During the next four quarters, the manager's performance will be closely monitored to see if it is warranted for the manager to be placed on probation.

   c) A manager placement on probation will result in review by the Investment Committee. When a manager is placed on probation, the Director will caution the manager against making changes from their proscribed styles or risk profile. Upon a critical review of the manager, the Investment Committee may grant up to one year further for improvement to take place upon officially recognizing the substandard performance and explicitly granting an extension of time for improvement. If there has been improvement in performance, the Investment Committee may extend the probation beyond one year.

   During the period of any such extraordinary extension, the investment staff will monitor the portfolio and transactions of such manager to ensure that excessive risk is not being taken in an attempt to "catch up". If in the judgment of the Director, such manager is managing the portfolio in such a manner that indicates that excessive risk is being taken, the Director should use the previously delegated authority to terminate or restrict the manager's activities.

5. In order to be taken off probation and placed on the watch list, a manager must beat their benchmark for 2 successive quarters net of fees (i.e. March and June) OR beat their benchmark at one-year following four quarters of good performance.
6. In order to be taken off the watch list, a manager must beat their benchmark for an additional 2 successive quarters net of fees (i.e. September and December) OR have an additional four quarters of good performance.
7. Extraordinary events (described below) that are deemed likely to negatively impact the manager's organization or investment process may also result in a manager being placed on watch list or probation, regardless of the manager's performance.

Extraordinary Reviews of Managers

If an event occurs within a manager's organization or is likely to impact the manager's organization, the Director, Retirement Services, shall make a determination whether such event compromises the investment process or in any other manner might negatively impact the management of the Plan's assets.

Statement of Investment Policy *Continued*

Such events would include but are not limited to:

a) Loss of any significant investment professional directly involved with the management of Plan assets or of such significance to the manager's overall investment process as to call into question the future efficacy of that process.

b) Sale, offers for sale, or offer to purchase the manager's business to/by another entity.

c) Significant financial difficulty or loss of a sizable portion of the manager's assets under management.

d) Filing or announcement of regulatory action of non-trivial nature, particularly that involving violations of the Investment Advisers Act of 1940, the Securities Act of 1933, or the Securities Exchange Act of 1934, or any state Blue Sky Law to which the manager is subject.

e) Any other event which in the discretion of the Director appear to put the Fund's assets at risk of loss, either actual or opportunity. Examples of such events include performance and/or risk that is inconsistent with the manager's stated investment approach and a flagrant violation of guidelines.

Any of these events may trigger a due diligence visit to the firm by the Investment Committee, being placed on the watch list, being put on probation or termination depending on the seriousness of the event and the probability of impacting the management of the Plan's assets.

Exceptions

The Board may grant specific exceptions to any part of the Investment Policy Statement where in their judgment the exception may add value to the fund without undue risk.

Investment Professionals

INVESTMENT MANAGERS

Domestic Equities

Atlanta Capital
Management
Large Cap Growth
Atlanta, GA

Brandywine Asset
Management
Small Cap Value
Philadelphia, PA

Eagle Asset
Management, Inc.
Small Cap Growth
St. Petersburg, FL

Northern Trust Global
Investments
Russell 3000 Index
Chicago, IL

Domestic Equities *Continued*

Dodge & Cox
Large Cap Value
San Francisco, CA

Wellington Management
All Cap Growth
San Francisco, CA

Private Equities

Pantheon Ventures, Inc.
Private Market Equities
San Francisco, CA

Pathway Capital
Management, LLC
Private Market Equities
Irvine, CA

International Equities

The Boston Company Asset
Management, LLC
Boston, MA

Fisher Investments
Institutional Group
Woodside, CA

McKinley Capital
Management
Anchorage, AK

Domestic Fixed Income

Dodge & Cox
San Francisco, CA

BlackRock Financial
Management
New York, NY

Global Fixed Income

Loomis Sayles
Boston, MA

Real Estate

American Realty Advisors
Glendale, CA

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

GE Asset Management
Stamford, CT

MIG Realty Advisors
Cleveland, OH

Prudential Real Estate
Investors
Newark, NJ

CONSULTANTS

Strategic Investment
Solutions, Inc.
San Francisco, CA

CUSTODIAN

The Northern Trust
Chicago, IL

PROXY VOTING

Glass Lewis & Co. LLC
San Francisco, CA

Schedule of Investment Results

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ending June 30, 2008

	One Year	*Three Years*	*Five Years*
Total Fund	**-3.1%**	**7.5%**	**9.5%**
Benchmark	-2.9%	7.1%	9.2%
ICC Total Public Fund Median	-4.4%	6.8%	8.9%
Total Domestic Equity	**-11.5%**	**5.4%**	**9.2%**
Russell 3000	-12.7%	4.7%	8.4%
ICC US Equity Median	-12.9%	4.9%	9.8%
Total International Equity	**-7.2%**	**14.9%**	**17.8%**
MSCI ACWI ex-US	-6.2%	16.2%	19.4%
ICC International Equity Median	-9.7%	13.7%	17.7%
Total Domestic Fixed Income	**5.2%**	**4.0%**	**4.1%**
Lehman Brothers Aggregate Bond Index	7.1%	4.1%	3.9%
ICC US Fixed Income Median	6.4%	4.4%	4.1%

	One Quarter	*One Year*	*Three Years*
Total Global Fixed Income	**-2.7%**	**13.5%**	**6.6%**
Citigroup World Government Bond Index	-4.2%	17.0%	6.2%
ICC Global Fixed Income Median	-1.8%	10.9%	6.1%

	One Year	*Three Years*	*Five Years*
Total Real Estate	**10.7%**	**16.0%**	**18.0%**
NCREIF Property Index	9.3%	15.0%	14.7%
ICC Real Estate Fund Median	6.8%	13.6%	14.5%

Basis of Calculation: Time-Weighted Rate of Return

Source: Strategic Investment Solutions, Inc. Performance Evaluation Report dated June 30, 2008

Schedule of Investment Results *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER

For Periods Ending June 30, 2008

The table below details the rates of return for the System's investment managers over various time periods.

Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed and an "=" represents a benchmark the manager has matched.

Domestic Equity	*One Year*	*Three Years*	*Five Years*
Northern Trust (Index)	-12.6%++	4.8%+	8.4%=
Russell 3000 Index	-12.7%	4.7%	8.4%
ICC US Equity Median	-12.9%	4.9%	9.8%
Atlanta Capital (Large Cap Growth)	-2.1%++	6.9%++	7.9%+
Russell 1000 Growth Index	-6.0%	5.9%	7.3%
ICC Large Cap Growth Median	-12.7%	5.1%	8.9%
Eagle Asset Management (Small Cap Growth)	-9.8%++	9.9%++	14.3%++
Russell 2000 Growth Index	-10.8%	6.1%	10.4%
ICC Small Cap Growth Median	-12.6%	5.8%	11.2%
Brandywine (Small Cap Value)	-24.1%	-1.8%	8.0%
Russell 2000 Value Index	-21.6%	1.4%	10.0%
ICC Small Cap Value Median	-20.3%	1.8%	10.6%

	One Quarter	*One Year*	*Three Years*
Dodge & Cox (Large Cap Value)	-4.4%+=	-20.5%	3.1%
Russell 1000 Value Index	-5.3%	-18.8%	3.5%
ICC Large Cap Value Median	-4.4%	-19.1%	3.6%

	One Quarter	*One Year*	*Inception (09/05)*
Wellington Management	7.2%++	-2.4%++	6.4%+
Russell 3000 Growth Index	1.5%	-6.4%	4.9%
ICC All Cap Growth Median	3.0%	-6.4%	N/A

International Equity	*One Year*	*Three Years*	*Five Years*
Boston Company Asset Management, LLC	-13.8%	9.5%	15.5%
MSCI ACWI ex-US Index	-6.2%	16.2%	19.4%
ICC International Developed Markets Equity Median	-9.6%	13.9%	17.9%

	One Quarter	*One Year*	*Three Years*
Fisher Investments Institutional Group	4.5%++	-3.4%++	15.6%+
MSCI ACWI ex-US Index	-0.9%	-6.2%	16.2%
ICC International Developed Markets Equity Median	-1.8%	-9.6%	13.9%
McKinley Capital Management	2.3%++	-5.9%++	18.2%++
MSCI ACWI ex-US Index	-0.9%	-6.2%	16.2%
ICC International Developed Markets Equity Median	-1.8%	-9.6%	13.9%

Domestic Fixed Income	*One Quarter*	*One Year*	*Three Years*
BlackRock Financial Management, Inc.	6.2%	3.7%	3.8%
Lehman Brothers Aggregate Bond Index	7.1%	4.1%	3.9%
ICC Core Bonds Median	6.7%	4.2%	3.9%

Basis of Calculation: Time-Weighted Rate of Return

Source: Strategic Investment Solutions, Inc. Performance Evaluation Report dated June 30, 2008

Schedule of Investment Results *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER *Continued*

For Periods Ending June 30, 2008

Domestic Fixed Income *Continued*	*One Year*	*Three Years*	*Five Years*
Dodge and Cox	3.9%	3.8%	3.9%==
Lehman Brothers Aggregate Bond Index	7.1%	4.1%	3.9%
ICC Core Bonds Median	6.7%	4.2%	3.9%

Global Fixed Income	*One Quarter*	*One Year*	*Three Years*
Loomis Sayles	-2.7%+	13.1%+	6.3%++
Citigroup World Government Bond Index	-4.2%	17.0%	6.2%
ICC Global Fixed Income Median	-1.8%	10.9%	6.1%

Real Estate	*One Year*	*Three Years*	*Five Years*
MIG Realty Advisors	28.3%++	13.6%=	16.3%++
Fidelity LP	1.4%	31.4%++	29.9%++
NCREIF Property Index	9.3%	15.0%	14.7%
ICC Real Estate Fund Median	6.8%	13.6%	14.5%

	One Quarter	*One Year*	*Three Years*
Prudential (PRISA)	0.5%+	7.0%+	14.7%+
NCREIF Property Index	0.6%	9.3%	15.0%
ICC Real Estate Fund Median	0.0%	6.8%	13.6%

	One Quarter	*Inception (08/07)*
Fidelity Growth Fund III	-9.1%	-46.7%
NCREIF Property Index	0.6%	9.3%
ICC Real Estate Fund Median	3.1%	N/A

	One Quarter	*One Year*	*Inception (01/07)*
American Realty*	0.9%+	12.2%+	13.6%
NCREIF Property Index*	1.6%	13.6%	14.8%
ICC Real Estate Fund Median	0.0%	6.8%	N/A

	One Quarter	*One Year*	*Inception (08/06)*
GE Asset Management*	-0.1%	1.0%	-26.0%
NCREIF Property Index*	1.6%	13.6%	15.8%
ICC Real Estate Fund Median	0.0%	6.8%	N/A

	One Year	*Three Years*	*Five Years*
DRA Growth & Income II*	34.2%++	47.5%++	30.2%++
NCREIF Property Index*	13.6%	16.8%	15.1%
ICC Real Estate Fund Median	6.8%	13.6%	14.5%

	One Quarter	*One Year*	*Inception (01/07)*
DRA Growth & Income V*	1.5%	16.9%++	10.2%
NCREIF Property Index*	1.6%	13.6%	17.3%
ICC Real Estate Fund Median	0.0%	6.8%	N/A

	One Quarter	*Inception (11/07)*
DRA Growth & Income VI*	2.1%+	8.5%
NCREIF Property Index*	1.6%	8.6%
ICC Real Estate Fund Median	6.8%	N/A

** Quarter Lag*

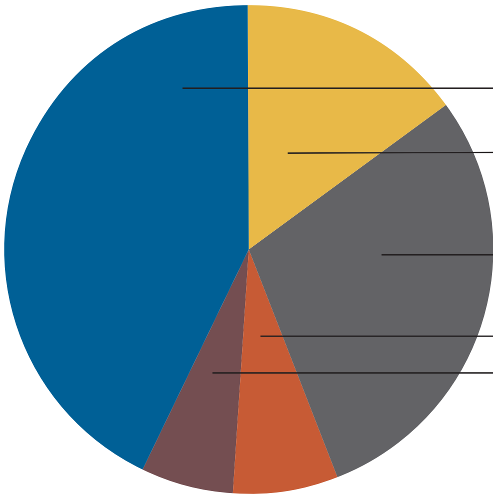
Basis of Calculation: Time-Weighted Rate of Return

Source: Strategic Investment Solutions, Inc. Performance Evaluation Report dated June 30, 2008

Investment Review

TARGET ASSET ALLOCATION

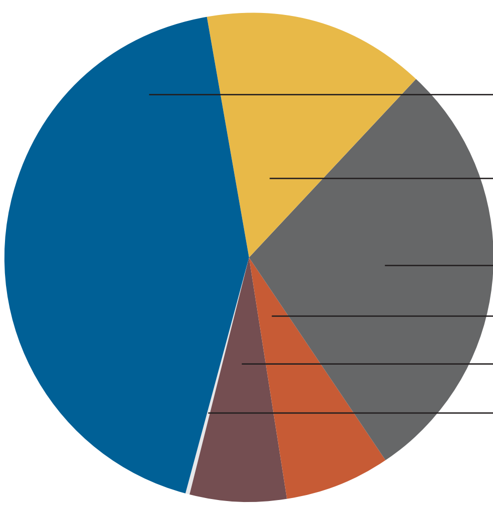
As of June 30, 2008



Domestic Equity	43%
International Equity	15%
Domestic Fixed Income	29%
Global Fixed Income	7%
Real Estate	6%

ACTUAL ASSET ALLOCATION

As of June 30, 2008 (Dollars in Millions)



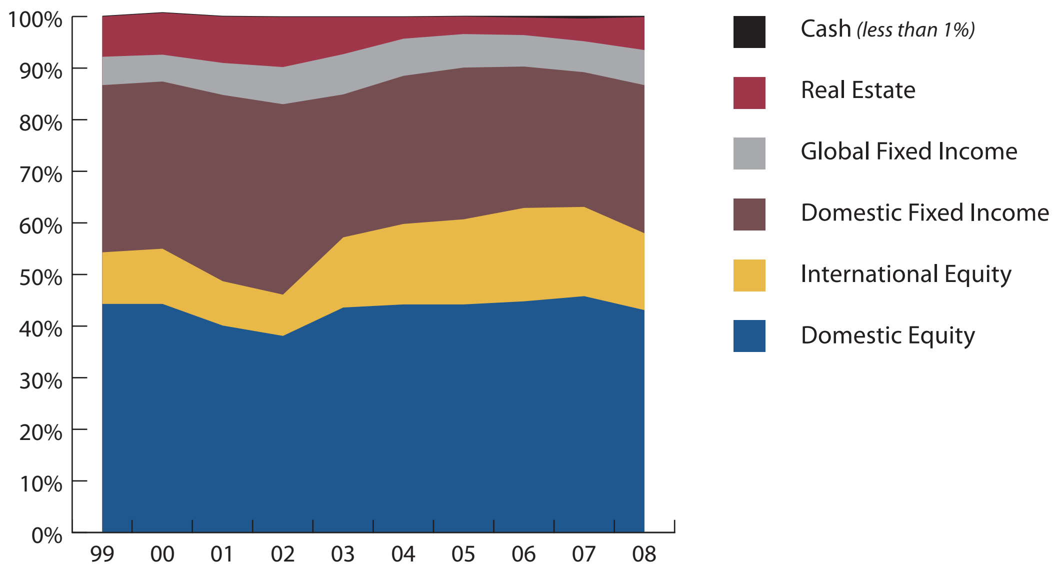
Domestic Equity	43.0%	$ 764.06
International Equity	14.9%	263.65
Domestic Fixed Income	28.7%	508.50
Global Fixed Income	6.9%	122.28
Real Estate	6.4%	114.35
Cash	0.1%	1.43
TOTAL		**$1,774.27**

Non-GAAP Basis

Investment Review *Continued*

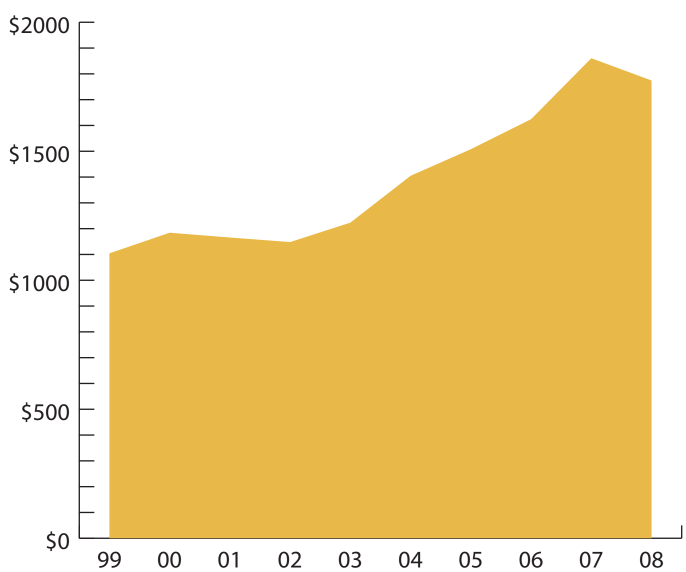
HISTORICAL ASSET ALLOCATION (ACTUAL)

June 30, 1999 – June 30, 2008



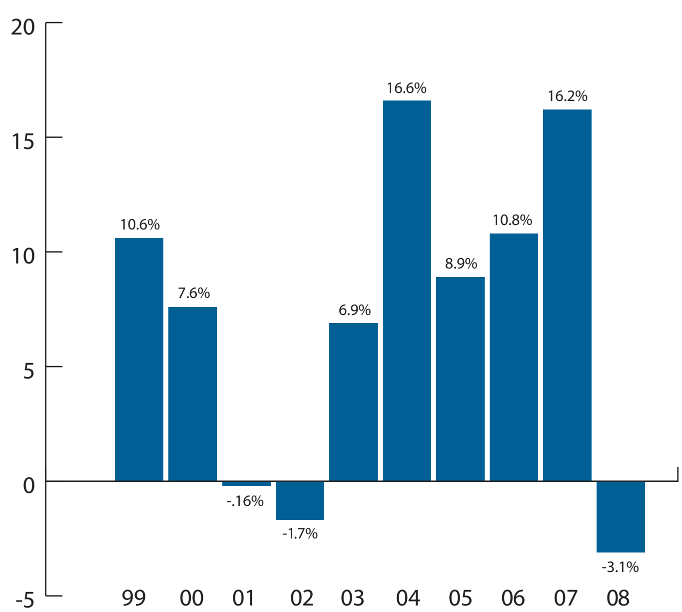
MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2008 (Dollars in Millions)



HISTORY OF PERFORMANCE FOR FISCAL YEARS 1999 – 2008

(Based on Market Value)



List of Largest Assets Held

LARGEST STOCK HOLDINGS *(By Market Value)*
June 30, 2008

Description	Country	Shares	Market Value in $US
HEWLETT PACKARD CO COM	United States	81,700	$3,611,957
COMCAST CORP NEW CL A CL A	United States	178,000	$3,376,660
BHP BILLITON PLC USD0.50	United Kingdom	85,990	$3,285,753
ORACLE CORP COM	United States	152,180	$3,195,780
FLUOR CORP NEW COM	United States	17,100	$3,181,968
NINTENDO CO LTD NPV	Japan	5,495	$3,105,047
LOCKHEED MARTIN CORP COM	United States	30,580	$3,017,023
BAYER AG NPV (BR)	Germany	35,240	$2,968,227
NESTLE SA COMSTK	Switzerland	64,800	$2,936,548
EOG RESOURCES INC COM	United States	21,870	$2,869,344

A complete list of portfolio holdings is available upon request.

LARGEST BOND HOLDINGS *(By Market Value)*
June 30, 2008

Description	Country	Maturity Date	Par Value	Market Value in $US
FNMA POOL #735503 6% 04-01-2035 BEO	United States	4/1/2035	11,503,692	$11,672,428
FNMA POOL #844809 5% 11-01-2035 BEO	United States	11/1/2035	10,322,404	$9,929,069
FNMA 30 YEAR PASS-THROUGHS 5.5% 30 YEARS SETTLES JULY	United States	5/25/2038	9,600,000	$9,462,000
FNMA TBA 30 YR PASS-THROUGHS 6.5 30 YEARS SETTLES JUL	United States	7/15/2036	8,700,000	$8,955,563
FNMA POOL #889474 6.5% 04-01-2038 BEO	United States	4/1/2038	7,354,317	$7,580,131
FNMA POOL #889116 6% DUE 02-01-2038 REG	United States	2/1/2038	6,876,314	$6,945,627
FNMA POOL #984844 5.5% 07-01-2038 BEO	United States	7/1/2038	6,900,000	$6,809,334
GERMANY(FED REP) 3.25% BDS 17/4/09 EUR0.01	Germany	4/17/2009	4,325,000	$6,744,158
FHLMC POOL #1H-2623 5.8 07-01-2036	United States	7/1/2036	6,231,305	$6,366,337
UNITED STATES TREAS NTS DTD 08/15/2003 3.25% DUE 08-15-2008 REG	United States	8/15/2008	6,100,000	$6,111,438

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

	*Assets Under Management at Market Value**	*Fees*	*Basis Points*
Investment Managers' Fees			
Domestic Equity	$ 706,799,000	$ 1,976,988	28
Private Equity	57,261,000	856,426	150
International Equity	263,651,000	1,892,194	72
Domestic Fixed Income	508,504,000	1,042,222	20
Global Fixed Income	122,284,000	398,739	33
Real Estate	114,347,000	1,389,492	122
Cash	1,430,000	-	N/A
TOTAL	**$1,774,276,000**	**$7,556,061**	**43**

Other Investment Service Fees			
Investment Consultant	N/A	$212,500	N/A
Proxy Voting	N/A	11,500	N/A
Custodian	N/A	250	N/A
Real Estate Legal Fees	N/A	13,198	N/A
Real Estate Appraisals	N/A	4,450	N/A
TOTAL		**$241,898**	

** Includes Cash in Managers' Accounts; Non-GAAP Basis*

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
ABG SECURITIES STOCKHOLM	78,620	$ 3,309.32	$ 0.04209
ADAMS HARKNESS & HILL, INC	49,615	1,987.10	0.04005
ADP CLEARING & OUTSOURCING INC	76,125	1,896.08	0.02491
AGORA COR DE TITUL E VAL MOB RIO	26,100	2,485.54	0.09523
ARNHOLD & S BLEICHROEDER INC	600	24.00	0.04000
B TRADE SERVICES	355,264	7,452.63	0.02098
BANC AMERICA SECUR. MONTGOMERY DIV.	569,687	15,843.91	0.02781
BANK J.VONTOBEL UND CO. AG ZURICH	8,310	3,309.61	0.39827
BAYPOINT TRADING LLC	36,370	620.80	0.01707
BEAR STEARNS 57079	221,670	8,532.77	0.03849
BEAR STEARNS INTL (STOCK BORR.)LON	87,985	2,043.80	0.02323
BEAR STEARNS LONDON, CREST 9IKAV	13,275	179.12	0.01349
BEAR STEARNS NEW YORK DTC 352	832,715	16,618.17	0.01996
BEAR STEARNS SECURITIES CORP.	271,031	8,446.97	0.03117
BERNSTEIN, SANFORD C. & CO	336,300	6,352.35	0.01889
WILLIAM BLAIR & CO	45,325	1,472.40	0.03249
BLOOMBERG TRADEBOOK LLC	49,995	695.95	0.01392
BNY ESI SECURITIES CO.	810,231	12,887.03	0.01591
BOENNING & SCATTERGOOD NFS	181,190	4,076.87	0.02250
BROADCORT CAPITAL CORP	84,360	3,374.40	0.04000
BROCKHOUSE & COOPER MONTREAL	226,618	4,762.57	0.02102
BROWN BROTHERS, HARRIMAN & CO NEW YORK	8,100	364.50	0.04500
BUCKINGHAM RESEARCH GROUP	800	32.00	0.04000
BUNTING WARBURG TORONTO	16,000	322.17	0.02014
C I NORDIC SECS STOCKHOLM	13,610	3,385.93	0.24878
CANTOR FITZGERALD & CO	427,793	13,858.09	0.03239
CANTOR FITZGERALD CO NEW YORK	41,900	1,257.00	0.03000
CAP INSTITUTIONAL SERVICES INC	148,489	5,055.67	0.03405
CAZENOVE & CO	114,206	2,498.23	0.02187
CHASE MANHATTAN BANK LONDON (TRANS)	148,873	3,957.70	0.02658
CHEUVREUX DE VIRIEU NEW YORK	1,580	766.97	0.48542
CHEUVREUX DE VIRIEU PARIS	108,448	5,782.67	0.05332
CIBC WORLD MARKETS CORP. NEW YORK	63,250	2,337.25	0.03695
CITIBANK NEW YORK DTC 908	4,000	79.00	0.01975
CITIGROUP GLOBAL LTD BROKER	61,900	2,433.12	0.03931
CITIGROUP GLOBAL MARKETS INC/SMITH BARNEY	808,241	28,137.71	0.03481

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
CITIGROUP GLOBAL MARKETS UK EQUITY	1,500	$ 85.79	$ 0.05719
COLLINS STEWART INC.	620	24.80	0.04000
COWEN LLC	55,580	2,185.90	0.03933
CRAIG HALLUM	17,485	699.40	0.04000
CREDIT AGRICOLE INDOSUEZ, MILAN	47,300	595.77	0.01260
CREDIT LYONNAIS SECS KOREA SEOUL	43,760	7,213.05	0.16483
CREDIT LYONNAIS SECS SINGAPORE	35,500	1,886.11	0.05313
CREDIT SUISSE FIRST BOSTON CORPORATION	734,272	15,018.07	0.02045
CREDIT SUISSE FIRST BOSTON SA CTVM	31,100	2,127.26	0.06840
CREDIT SUISSE FIRST BOSTON TAIPEI	7,600	380.00	0.05000
CROWELL WEEDON AND CO	7,340	293.60	0.04000
CSFB NEW YORK DTC 355	406,700	11,177.40	0.02748
D CARNEGIE AB, STOCKHOLM	65,250	2,194.52	0.03363
DAHLMAN ROSE & COMPANY	7,540	301.60	0.04000
DAIWA SECS AMERICA NEW YORK	18,400	759.40	0.04127
DAVENPORT AND CO OF VIRGINIA INC	17,000	765.00	0.04500
DEUTSCHE BANK SECURITIES INC	516,285	9,826.01	0.01903
DONALDSON & CO. INCORPORATED	2,400	108.00	0.04500
DONALDSON AND COMPANY INC	5,300	238.50	0.04500
DONALDSON LUFKIN AND JENRETTE SECS	72,330	2,070.58	0.02863
DOUGHERTY COMPANY	2,675	107.00	0.04000
DOWLING & PARTNERS 443	6,300	252.00	0.04000
DRESDNER KLEINWORT WASSERSTEIN SEC	137,154	4,021.76	0.02932
E TRADE CLEARING LLC	890	35.60	0.04000
EDWARDS. A.G.	7,800	351.00	0.04500
EUROMOBILIARE SPA MILAN	104,200	1,271.64	0.01220
FIDELITY CAPITAL MARKETS	15,640	357.91	0.02288
FIRST ALBANY CORPORATION	600	24.00	0.04000
FOX PITT KELTON	14,980	480.20	0.03206
FRANK RUSSELL SECURITIES NEW YORK	9,240	369.60	0.04000
FRIEDMAN BILLING AND RAMSEY	33,120	1,150.20	0.03473
FUJI SECURITIES NEW YORK	38,986	2,435.23	0.06246
FUTURETRADE SECURITIES LLC	5,255	36.79	0.00700
GOLDMAN CLEARING AND EXECUTING	1,850	41.62	0.02250
GOLDMAN EXECUTING & CLEARING	726,882	5,652.79	0.00778
GOLDMAN SACHS & CO NW YK DTC 005	569,465	9,524.47	0.01673
GOLDMAN SACHS & COMPANY	299,820	12,213.57	0.04074

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
GRIFFITHS MCBURNEY AND PARTNERS NY	21,870	$ 874.80	$ 0.04000
GRIFFITHS MCBURNEY PARTNERS TORONTO	42,000	800.88	0.01907
HARRIS NESBITT CORP	9,940	304.60	0.03064
HEDGING GRIFFO SAO PAULO	44,630	2,241.01	0.05021
HEFLIN & CO, LLC	29,660	1,186.40	0.04000
HIBERNIA SOUTHCOAST CAPITAL INC.	5,900	236.00	0.04000
HSBC BROKERAGE USA	37,340	1,544.25	0.04136
IBERIAN EQUITIES S.A.A.V	19,900	1,973.56	0.09917
ING FINANCIAL MARKETS LLC	20,700	621.00	0.03000
INSTINET	59,755	1,881.38	0.03148
INSTINET – FRANCE	42,672	2,338.32	0.05480
INSTINET – NEW YORK (CORPORATION)	79,450	2,873.00	0.03616
INSTINET CANADA TORONTO	111,100	4,615.60	0.04154
INSTINET PACIFIC LTD HK	729,550	6,437.52	0.00882
INSTINET U.K LIMITED LONDON	542,440	12,445.93	0.02294
INVESTMENT TECH GP INC NEW YORK	30,600	612.00	0.02000
INVESTMENT TECHNOLOGY GROUP DUBLIN	14,600	749.05	0.05130
INVESTMENT TECHNOLOGY GROUP INC	980,921	10,247.55	0.01045
IPS BROKERAGE INC	20,800	936.00	0.04500
ISI GROUP INC.	41,800	1,881.00	0.04500
ITG INC	3,060	46.00	0.01503
JP MORGAN SECURITIES INC	378,425	10,898.40	0.02880
JANNEY MONTGOMERY SCOTT	2,800	84.00	0.03000
JEFFERIES & COMPANY	487,397	13,708.19	0.02813
JMP SECURITIES	53,109	1,637.16	0.03083
JNK SECURITIES INC	13,800	300.75	0.02179
JONES AD	85,800	3,861.00	0.04500
JONESTRADING INST SERV	384,190	10,384.13	0.02703
JP MORGAN CHASE LONDON(CREST 82XHJ)	68,560	1,401.61	0.02044
JP MORGAN SECURITIES (ASIA PAC)	117,000	1,295.07	0.01107
JP MORGAN SECURITIES AUSTRALIA LTD	980	84.82	0.08655
JP MORGAN SECURITIES LIMITED LONDON	82,917	10,405.16	0.12549
KEEFE BRUYETTE AND WOODS INC.	15,445	613.80	0.03974
KEMPEN & CO AMSTERDAM	5,300	184.99	0.03490
KEPLER EQUITIES	46,365	7,646.47	0.16492
KEPLER EQUITIES SUCURSAL EN ESPANIA	10,750	242.09	0.02252
KEPLER EQUITIES, ZURICH BRANCH	3,690	448.32	0.12150

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
KNIGHT SECURITIES L.P.	312,879	$ 9,216.39	$ 0.02946
LADENBURG, THALMANN AND CO	4,055	162.20	0.04000
LAZARD FRERES & CO.	10,800	432.00	0.04000
LEERINK SWANN & CO./IPO	14,705	585.20	0.03980
LEHMAN BROS INC NEW YORK DTC 074	47,000	375.26	0.00798
LEHMAN BROTHERS INC NEW YORK	658,104	19,655.52	0.02987
LEHMAN BROTHERS INTERNATIONAL EUR.	370,075	11,414.51	0.03084
LEHMAN BROTHERS INTL (EUROPE) SEOUL	7,200	1,409.56	0.19577
LEK SECURITIES CORP	46,045	322.33	0.00700
LIQUIDNET ASIA LIMITED	1,980	348.24	0.17588
LIQUIDNET INC	643,801	13,273.52	0.02062
LYNCH JONES & RYAN	367,564	13,336.88	0.03628
MACQUARIE EQUITIES LTD SYDNEY	82,140	5,395.13	0.06568
MACQUARIE EQUITIES NEW YORK	4,400	264.41	0.06009
MACQUARIE SECURITIES LTD, HONG KONG	1,888,300	9,580.21	0.00507
MACQUARIE SECURITIES LTD,SEOUL BNCH	2,880	637.48	0.22135
MCDONALD AND COMPANY/KEYBANC	16,865	674.60	0.04000
MERRILL LYNCH & CO. INC	84,160	7,625.64	0.09061
MERRILL LYNCH CANADA, INC	700	7.00	0.01000
MERRILL LYNCH CAP MARKETS FRANKFURT	42,240	1,138.60	0.02696
MERRILL LYNCH CAPITAL MARKETS	7,310	246.60	0.03373
MERRILL LYNCH FENNER & SMITH INC	598,490	19,199.42	0.03208
MERRILL LYNCH GOVERN SECS DTC 5193	360	138.10	0.38361
MERRILL LYNCH INTERNATIONAL, LONDON	15,610	569.87	0.03651
MERRILL LYNCH INTL LTD EQUITIES	287,224	14,187.09	0.04939
MERRILL LYNCH PIERCE FENNER & SMITH	648,746	17,769.18	0.02739
MERRILL PROFESSIONAL CLEARING CORP.	104,445	2,217.80	0.02123
MERRIMAN CURHAN FORD & CO	1,200	48.00	0.04000
MIDWEST RESEARCH SECURITIES	12,410	496.40	0.04000
MILLER TABAK & CO LLC	1,130	45.20	0.04000
MILLER TABAK HIRSCH	4,725	189.00	0.04000
MITSUBISHI SECURITIES (USA) INC	27,703	1,429.76	0.05161
MORGAN GUARANTY EUROCLEAR OP CENTER	8,385	291.86	0.03481
MORGAN KEEGAN AND COMPANY	35,130	1,527.20	0.04347
MORGAN STANLEY & CO INC	483,300	6,589.75	0.01363
MORGAN STANLEY & CO INC. NEW YORK	896,893	28,226.03	0.03147

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
MORGAN STANLEY AND CO NW YK DTC 050	404,970	$ 14,151.03	$ 0.03494
MORGAN STANLEY EUROPE	72,385	2,576.41	0.03559
MORGAN STANLEY INTL LDN CREST 50706	15,975	539.39	0.03376
MORGAN STANLEY KOREA SEOUL	200	20.22	0.10110
NBC CLEARING SERVICE TWO	1,720	68.80	0.04000
NBC CLEARING SERVICES MONTREAL	900	28.03	0.03114
ΔNEEDHAM & COMPANY	12,310	492.40	0.04000
NOMURA SECURITIES INTERNATIONAL INC	10,400	312.00	0.03000
NOMURA SECURITIES NEW YORK	71,878	3,230.44	0.04494
NY FIX MILLENIUM INC	20,065	401.30	0.02000
NYFIX CLG CORP	8,850	44.25	0.00500
ODDO PARIS	10,120	1,659.77	0.16401
ODDO SECURITIES CORP (NEW YORK)	5,545	720.12	0.12987
OPPENHEIMER & COMPANY INC	5,080	203.20	0.04000
OPSTOCK SECURITIES HELSINKI	24,550	524.05	0.02135
PACIFIC CREST SECURITES	3,000	120.00	0.04000
PACIFIC GROWTH EQUITIES LLC	9,600	384.00	0.04000
PALI CAPITAL INC	2,100	84.00	0.04000
PEEL HUNT AND COMPANY LTD LONDON	8,225	55.49	0.00675
PELLINOR SECURITIES CORP	6,900	207.00	0.03000
PENSON FINANCIAL SERVICES CANADA	8,740	316.04	0.03616
PERSHING LIMITED LONDON	133,650	4,728.79	0.03538
PERSHING LLC - JERSEY CITY	3,034,655	90,648.92	0.02987
PERSHING LLC FORMERLY DLJ	170,600	6,814.50	0.03994
PERSHING SECURITIES LTD	7,355	1,329.92	0.18082
PIPELINE TRADING SYSTEMS LLC	92,098	1,800.67	0.01955
PIPER JAFFRAY INC	30,975	1,152.25	0.03720
PIPER JAFFREY NEW YORK	3,700	148.00	0.04000
PULSE TRADING LLC	191,300	4,304.30	0.02250
QUANTEX, NEW YORK DTC 019	10,200	306.00	0.03000
RAIFFEISEN ZENTRAL BANK - VIENNA	500	26.65	0.05330
RAYMOND JAMES	12,990	519.60	0.04000
RBC CAPITAL MARKETS INC.	76,695	3,097.05	0.04038
RBC DAIN RAUSCHER	30,662	1,226.48	0.04000
ROBBINS AND HENDERSON	2,740	61.65	0.02250
ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	95,740	3,830.80	0.04001
ROCHDALE SECURITIES CORPORATION	6,145	122.90	0.02000

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
SCOTIA MCLEOD INC	5,060	$ 202.40	$0.04000
SCOTT & STRINGFELLOW INVESTMENT	15,410	616.40	0.04000
SG COWEN AND COMPANY	1,100	33.00	0.03000
SG SECURITIES HONG KONG LTD	1,670	86.63	0.05187
SHEARSON LEHMAN HUTTON NEW YORK	4,990	199.60	0.04000
SIDOTI & COMPANY LLC	3,755	150.20	0.04000
SIMMONS & COMPANY INTL	17,760	738.90	0.04160
SKANDINAVISKA ENSKILDA BANKEN LONDO	133,300	2,963.66	0.02223
SOCIETE GENERALE LONDON	24,070	2,899.06	0.12044
SOLEIL SECURITIES CORP	18,330	549.90	0.03000
SPEAR LEEDS NEW YORK	11,400	342.00	0.03000
STANFORD GROUP COMPANY	8,560	362.90	0.04239
STATE STREET BROKERAGE SVCS	434,910	15,088.27	0.03469
STEPHENS INC	6,480	250.20	0.03861
STIFEL NICOLAUS AND COMPAN	79,915	2,920.35	0.03654
SUNTRUST ROBINSON HUMPHREY	38,061	1,522.44	0.04000
THINKEQUITY PARTNERS LLC	2,990	119.60	0.04000
THOMAS WEISEL PARTNERS 226	160,731	5,683.28	0.03536
UBS AG, (LONDON EQUITIES)	426,830	11,821.26	0.02770
UBS SECURITIES ASIA	735,075	4,854.03	0.00660
UBS WARBURG AUSTRALIA EQUITIES LTD	48,950	1,428.40	0.02918
UBS WARBURG LLC	576,305	12,603.25	0.02187
UBS WARBURG SECS LTD SEOUL	47,200	3,542.72	0.07506
UBS/WARBURG SECURITIES LLC NEW YORK	101,255	2,820.23	0.02785
UOB KAY HIAN HONG KONG LTD, HK	17,300	595.90	0.03445
UOB KAY HIAN PTE LTD	124,000	1,512.49	0.01220
US CLEARING INSTITUTIONAL TRADING	400	16.00	0.04000
VERITAS SECURITIES	53,500	1,605.00	0.03000
WACHOVIA CAPITAL MARKETS LLC	106,262	3,801.68	0.03578
WEDBUSH MORGAN SECURITIES, INC	2,790	111.60	0.04000
WIEN SECURITIES	3,800	152.00	0.04000
WEEDEN & CO	411,840	11,189.60	0.02717
WIEN SECURITIES	3,800	152.00	0.04000
TOTAL	**31,028,252**	**$817,817.46**	**$0.02636**

Investment Summary

Non-GAAP Basis
As of June 30, 2008
(Dollars in thousands)

Type of Investment	*Market Value*	*% of Portfolio*
EQUITIES		
Consumer Discretionary	$ 51,826	2.93%
Consumer Staples	3,430	0.19%
Energy	27,185	1.53%
Financials	41,547	2.34%
Health Care	38,658	2.18%
Industrials	43,625	2.46%
Materials	25,016	1.41%
Technology/Telecommunication	67,922	3.83%
Utilities	5,919	0.33%
Miscellaneous	2,692	0.15%
Commingled	355,892	20.06%
Foreign Equities	294,441	16.60%
TOTAL EQUITIES	**$ 958,153**	**54.01%**
FIXED INCOME		
US Treasury	19,656	1.11%
US Government Agency	241,317	13.60%
Domestic Corporate Bonds	269,390	15.18%
Foreign Government	68,554	3.86%
Foreign Corporate	36,790	2.07%
Derivative Instruments	(35)	0.00%
TOTAL FIXED INCOME	**$ 635,672**	**35.82%**
OTHER INVESTMENTS		
Short Term	38,467	2.16%
Real Estate	113,681	6.41%
Private Market Equities	57,260	3.23%
TOTAL OTHER INVESTMENTS	**$ 209,408**	**11.80%**
PENDINGS	**$ (28,956)**	**-1.63%**
TOTAL (Non-GAAP Basis)	**$1,774,277**	**100.00%**

Investment Property

MILPITAS WAREHOUSE

145,152 square-foot warehouse/distribution building, equally divided into four bays. Acquired jointly with the Police & Fire Department Retirement Plan in February 1986. The System purchased the Police & Fire Department Retirement Plan's 50% interest in the property in November 2003.

Actuarial Section

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Actuarial Certification Letter

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

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August 14, 2008

Board of Administration
City of San José
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, CA 95112-4505

RE: ACTUARIAL VALUATION CERTIFICATION

Dear Members of the Board:

The actuarial valuation report for the City of San Jose Federated City Employees' Retirement System, completed as of June 30, 2007, illustrates that the assets of the Federated Retirement System along with future contributions at the level recommended in that report are expected to fully support the benefits of the System. This conclusion is based on plan provisions as were outlined in the valuation, financial and demographic data as of the valuation date and on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

In support of this opinion and certification, we have included the following information:

- The funding objective of the plan.
- The frequency of the plan's actuarial valuations and date of the most recent actuarial valuation.
- The source and degree of verification of the data used in the actuarial valuation.
- Supporting schedules that we have prepared and attached.
- The extent of our responsibility for the trend data schedules in the financial section of the report.
- The assumptions and methods used to value retirement plan assets and retirement liabilities relative to the Government Accounting Standards Board (GASB) Statement No. 25 (retiree medical liabilities are valued in accordance with GASB Statement No. 43 and 45 and are part of a separate valuation).
- Other disclosure information.

The Funding Objective of the Plan

Chapters 3.28 and 3.44 of the San Jose Municipal Code and related ordinances establish that the required annual contribution to the plan, shared by the City and members is such that contribution rates, over time, shall remain level as a percentage of payroll.

Actuarial Certification Letter *Continued*

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over a combination of 30 years and the present value of future salaries.

The Frequency of the Plan's Actuarial Valuations and Date of the Most Recent Actuarial Valuation

This plan is valued on a bi-annual basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 2007.

The Source and Degree of Verification of the Data Used in the Actuarial Valuation

Computer files containing data on System membership of June 30, 2007 were provided by the City of San Jose Department of Retirement Services. While these files were not audited, the data was checked for internal consistency and was reviewed for reasonableness and consistency in relation to the data provided for the prior valuation.

Asset-related data were also received from the City of San Jose Department of Retirement Services and were used without further audit in the development of the actuarial value of assets.

Supporting Schedules

We have prepared the following supporting schedules relative to the retirement benefits and liabilities for inclusion in this Financial Statement (the schedules exclude the retiree medical liabilities):

- Summary of actuarial assumptions and methods.
- Schedule of active member valuation data.
- Schedule of retirants and beneficiaries added to and removed from rolls.
- Solvency test.
- Analysis of financial experience.

Trend Data Schedules in the Financial Section

All of the trend data information in the financial section of the report was calculated and summarized by Gabriel, Roeder, Smith & Co.

Actuarial Assumptions and Methods Used for Funding Purposes

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*. In

Actuarial Certification Letter *Continued*

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

The undersigned is a Fellow of the Society of Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries with over 30 years of experience in performing valuations.

Sincerely,

Leslie L Thompson

Leslie L. Thompson, FSA, FCA, EA, MAAA
Senior Consultant

Summary of Assumptions and Funding Method

Actuarial Valuation Cost Method. The Entry Age Normal Cost Method is used for the retirement benefits of the System

Financing of Unfunded Actuarial Accrued Liability. The balance of unfunded actuarial accrued liabilities was amortized by level percent of payroll contributions over a 30-year period.

Asset Valuation Method. The Actuarial Value of Assets recognizes 20% of total return in excess of (or less than) the investment return assumption for each of the last five years. This method has the effect of smoothing volatility in investment returns.

The Investment Return Rate used for the actuarial valuation calculations was 8.25% a year, net of administrative expenses, compounded annually. This assumption is used to equate the value of payments due at different points in time. The rate is comprised of two elements:

Inflation	4.00%
Real Rate of Return	4.25%
Total	**8.25%**

Salary Increase Rates used to project current pays to those upon which a benefit will be based are represented by the following table. Rates do not vary by age, but do reflect an added merit component, for those with 0–4 years of service at the valuation date.

The rate of annual salary increase for all members with at least 5 years of service is set out in the following:

Inflation	4.00%
Merit and Longevity	0.25%
Total	**4.25%**

The rate of annual salary increase for all members with less than 5 years of service equal to the 4.25% set out above plus the appropriate value from the following table:

Years of Service at Valuation Date	*Merit/Longevity*
0	5.50%
1	3.50%
2	2.00%
3	1.50%
4	0.75%

Interest credited to member contributions is 3.0%, compounded annually.

Sample rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probabilities of members remaining in employment.

% of Active Members Separating Within Next Year

Sample Ages	*Disability*[1]	*Withdrawal*	*Vested Termination*[2]
20	.04%	11.00%	-%
25	.06	7.00	3.00
30	.07	5.00	3.00
35	.09	2.50	2.75
40	.15	1.50	2.00
45	.25	1.25	2.00
50	.40	1.25	1.50
55	.50	1.00	0.00
60	1.00	1.00	0.00
65	2.00	0.00	0.00
70	0.00	0.00	0.00

[1] 50% of the disabilities are assumed to be duty-related and 50% are assumed to be non-duty related.

[2] 30% of terminating employees who leave their contributions in the Plan, with 5+ years of service, are assumed to subsequently work for a reciprocal employer and receive 4.0% pay increases per year. (Previous valuation not explicitly valued.)

For inactive members, the assumed age at retirement is age 58 (previous assumption was 60).

If an inactive member is not vested, the liability valued is their employee contributions with interest.

The post-retirement mortality table used for healthy retirees and beneficiaries was the 1994 Group Annuity Mortality Table (sex distinct). The previous valuation used the 1983 Group Annuity Mortality Table for males with a one-year setback, and for females, with a one-year set forward). The disabled mortality table used was the 1981 Disability Mortality Table. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Related values are shown below.

	***Future Life Expectancy** (Years)*			***% of Benefit Recipients Dying Each Year***		
Sample Ages	*Retired Men*	*Retired Women*	*Disabled*	*Retired Men*	*Retired Women*	*Disabled*
45	35.4	39.7	23.6	0.16%	0.10%	2.08%
50	30.7	34.9	21.1	0.26	0.14	2.44
55	26.2	30.2	18.7	0.44	0.23	2.84
60	21.8	25.6	16.4	0.80	0.44	3.30
65	17.8	21.3	14.1	1.45	0.86	3.79
70	14.3	17.3	11.7	2.37	1.37	4.37
75	11.1	13.6	9.2	3.72	2.27	5.53
80	8.4	10.3	7.0	6.20	3.94	8.74

The active member mortality assumption measures the probability of mortality before retirement. The new rates include probability of ordinary death, service death, and death while eligible for retirement or disability.

% of Active Members Dying Each Year

Sample Ages	*Men*	*Women*
30	.06%	.05%
35	.06	.05
40	.07	.06
45	.09	.08
50	.16	.13
55	.26	.20
60	.38	.30
65	.53	.44

Summary of Assumptions and Funding Method *Continued*

The rates of retirement used to measure the probability of eligible active members retiring during the next year.

% of Active Members Retiring Within the Next Year*

Retirement Ages	*% of Active Members Retiring Within the Next Year*	*Retirement Ages*	*% of Active Members Retiring Within the Next Year*
55	15.0%	63	10.0%
56	7.5	64	10.0
57	7.5	65	25.0
58	7.5	66	25.0
59	7.5	67	25.0
60	7.5	68	25.0
61	7.5	69	25.0
62	20.0	70	100.00

**Superseded by 50% retirement probability each year after completion of 30 years of service and attainment of age 50.*

Disability Benefit Offset. Workers' Compensation Benefits are assumed to not be an offset.

Survivor Benefits. Marital status and spouses' census data were imputed with respect to active and deferred members.

Marital Status: 75% of men (85% in the previous valuation) and 55% of women (60% in the previous valuation) were assumed married at retirement.

Spouse Census: Women were assumed to be 3 years younger than men.

"Spouse" is assumed to encompass a registered domestic partner.

Health Subsidy Benefits

Increase in Retiree Population: The covered Retiree population is assumed to increase 6.10% per year.

Covered Payroll Increase: 4.0% per year. (4.5% previous valuation)

Medical and Dental Trend Rate: 7.50%

Schedule of Active Member Valuation Data

June 30, 1997 to June 30, 2007

Valuation Date	*Active Count*	*Annual Payroll*	*Average Annual Pay*	*% Change in Average Pay*
June 30, 2007	3,942	$291,404,606	$73,923	7.0%
June 30, 2005	4,148	286,445,861	69,056	5.6%
June 30, 2003	4,479	292,961,371	65,408	15.6%
June 30, 2001	4,466	252,696,000	56,582	7.9%
June 30, 1999	3,694	193,650,000	52,423	8.3%
June 30, 1997	3,642	176,284,000	48,403	6.8%

Changes in Retirants *(Including Beneficiaries)*

July 1, 1997 to June 30, 2007

	Beginning of Period		***Added to Rolls***		***Removed from Rolls***		***End of Period***			
Two-Year Period	*Count*	*Annual Allowances*	*Count*	*Annual Allowances*	*Count*	*Annual Allowances*	*Count*	*Annual Allowances*	*% Increase in Annual Allowances*	*Average Annual Allowances*
2005-2007	2,426	$69,466,000	389	$13,818,131	124	$2,721,303	2,691	$84,723,000	22.0%	$31,484
2003-2005	2,172	54,687,000	398	16,679,642	144	2,070,047	2,426	69,466,000	27.0%	28,634
2001-2003	2,030	45,208,000	313	10,151,748	171	503,802	2,172	54,687,000	21.0%	25,178
1999-2001	1,824	37,137,000	230	6,655,000	24	268,000	2,030	45,208,000	21.7%	22,270
1997-1999	1,745	32,630,000	202	4,642,000	123	1,514,000	1,824	37,137,000	13.8%	20,360

Solvency Test

June 30, 1997 to June 30, 2007

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Assets		
Year Ended	Active Member Contributions	Retirees, Beneficiaries & Other Inactives Accrued Liability	Active Accrued Liability (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets (d)/(a)	[(d)-(a)]/(b)	[(d)-(a)-(b)]/(c)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
2007	$214,527,146	$1,003,000,640	$743,414,943	$1,622,851,000	100%	100%	55%
2005	$230,027,497	$824,042,723	$657,299,610	$1,384,454,000	100%	100%	50%
2003	$224,874,793	$635,092,039	$451,723,795	$1,280,719,000	100%	100%	93%
2001	$210,377,000	$529,853,000	$332,103,000	$1,060,144,000	100%	100%	96%
1999	$196,887,000	$441,573,000	$223,766,000	$804,860,000	100%	100%	74%
1997	$167,837,000	$383,574,000	$184,361,000	$678,954,000	100%	100%	69%

Actuarial Analysis of Financial Experience

For the Six-Year Period Ending June 30, 2007

	Change in Contribution Rate
For Plan Year Ended June 30, 2007	
Investment Performance	(0.99%)
Liability Experience	1.14%
Change in Assumptions	0.00%
Change in Benefit Provisions	0.00%
TOTAL	**1.15%**
For Plan Year Ended June 30, 2005	
Investment Performance	1.77%
Liability Experience	2.37%
Change in Assumptions	-0.59%
Change in Benefit Provisions	0.00%
TOTAL	**3.55%**
For Plan Year Ended June 30, 2003	
Investment Performance	2.78%
Liability Experience	2.60%
Change in Asset Valuation Method	-2.48%
Change in Assumptions	0.00%
Change in Benefit Provisions	0.00%
TOTAL	**2.90%**
For Plan Year Ended June 30, 2001	
Investment Performance	-0.46%
Liability Experience	-1.62%
Change in Assumptions	0.00%
Change in Benefit Provisions	1.51%
TOTAL	**-0.57%**

Summary of Retirement Benefit Provisions

1. ***Eligibility:*** Members are eligible on their first day of City employment.
2. ***Final Compensation:*** Highest 12-month average salary, if separation takes place on or after July 1, 2001.

   Highest 36-month average salary, if separation takes place before July 1, 2001.
3. ***Service Retirement:***
   a) *Eligibility:* Age 55 with 5 years of service, or any age with 30 years of service.
   b) *Benefit:* 2.5% of Final Compensation for each year of service. Maximum benefit is 75% of Final Compensation.
   c) *Form of Payment:* Monthly benefit payable for the life of the member.
4. ***Disability Retirement:***
   a) *Eligibility:* Physically or mentally incapacitated so unable to perform duties of position. If disability is not service connected, then the member must have at least five years of City service.
   b) *Benefit:* 2.5% of Final Compensation per year of service. The maximum benefit is 75% and the minimum benefit is 40% of Final Compensation. Any Workers' Compensation benefits are offset from the benefits under this system.

      If the disability was non-service connected, then the benefit is reduced by .5% for every year under age 55.

      For those members who are hired on or after September 1, 1998, the non-service connected benefit is as follows:

      20% of Final Compensation for 6 years of service;

      Plus 2% for each years of service in excess of 6, but less than 16;

      Plus 2.5% for each year of service in excess of 16.
   c) *Form of Payment:* Monthly benefit payable for the life of the member.
5. ***Deferred Service Retirement:***
   a) *Eligibility:* Five years of membership prior to termination of City service. Member must leave contributions on deposit until retirement.
   b) *Benefit:* Same as Service Retirement, payable anytime after age 55.
   c) *Form of Payment:* Same as Service Retirement.
6. ***Pre-Retirement Death Benefits:***
   a) *Non-Service Connected with less than five years of service, or No Family Members Eligible for Allowance:* Member's beneficiary or estate receives (i), and (ii) where:

      (i) = Accumulated contributions with interest.

      (ii) = Lump sum benefit of one month's salary for each year of service, up to six years.
   b) *Service-Connected, or Non-Service Connected with five years of service:* Member's eligible survivor receives 2.5% of Final Compensation per years of service. The maximum benefit is 75% and the minimum benefit, if still an active employee at time of death, is 40% of Final Compensation, payable until the spouse remarries. If the Member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the Member's spouse.
7. ***Post-Retirement Death Benefits:*** Member's eligible survivor receives (i) and (ii), where:

   (i) = 50% continuance to surviving eligible spouse; if there is no surviving spouse, certain benefits are paid to the children.

   (ii) = $500 death benefit allowance for burial expenses at death of retired member.
8. ***Post-Retirement Cost-of-Living Benefits:***

   Each April 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

   The first cost-of-living adjustment is on the first day of the month following the one-year anniversary of retirement. The next adjustment will be prorated for the number of months remaining until the following April.
9. ***Employee Contributions:*** The Members' contribution rates are recalculated on an actuarial basis at each actuarial study. Contributions are credited with 3% interest annually (the interest crediting provision was changed from 7.25% to 3% effective July 1, 2001).

   All references to spouse also encompass registered domestic partners.

Summary of Health Subsidy Benefit Provisions

1. ***Eligibility:***
   a) *Medical:* Fifteen years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City medical insurance plan at retirement.
   b) *Dental:* Five years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City dental insurance plan at retirement.
2. ***Benefit:***
   a) *Medical:* The Retirement System pays 100% of the premium for the lowest cost medical plan offered by the City for single and family coverage. Members and eligible survivors pay for the difference in the premium for their selected plan and the portion paid by the Retirement System for the lowest cost plan.
   b) *Dental:* The Retirement System pays the entire cost of dental insurance coverage.
3. ***Contributions:*** Both the City and the Members contribute to the Retirement System fund for medical and dental insurance benefits.

Actuarial Certification Letter

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

Gabriel Roeder Smith & Company
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September 14, 2007

Board of Administration
City of San José
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, CA 95112-4505

RE: ACTUARIAL VALUATION CERTIFICATION

Dear Members of the Board:

The actuarial valuation report for the City of San Jose Federated City Employees' Retiree Health Care Plan, completed as of June 30, 2006, describes the current actuarial condition of the plan and determines the employer contribution rates necessary to fully support the benefits provided by the City of San Jose. This conclusion is based on financial and demographic data as of the valuation date and on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

In support of this opinion and certification, we have included the following information:

- The funding objective of the plan.
- The frequency of the plan's actuarial valuations and date of the most recent actuarial valuation.
- The source and degree of verification of the data used in the actuarial valuation.
- Supporting schedules that we have prepared and attached.
- The assumptions and methods used to value plan assets and liabilities relative to the Government Accounting Standards Board (GASB) Statement No. 45.

The Funding Objective of the Plan

The Governmental Accounting Standards Board (GASB) recently issued two accounting standards (GASB 43 and GASB 45) applicable to "Other Post-Employment Benefits," or OPEB plans such as the Retiree Health Care Plan offered by the City of San Jose. GASB Statement 45 relates to sponsors of OPEB plans while GASB 43 is applicable to the OPEB plan itself. This report has been completed in accordance with the implementation of these new standards.

The GASB standards require that the long-term cost of retiree health care and other OPEB benefits be determined and accrued on an actuarial basis similar to pension plans. The results of these valuations, including an annual OPEB expense (i.e. Annual Required Contribution, or ARC) and net obligation, would

Actuarial Certification Letter *Continued*

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

have to be disclosed on the City's financial statements. For a plan of this size, valuations are required to be prepared at least once every two years.

The GASB standards do not mandate the pre-funding of OPEB liabilities. However, any pre-funding of OPEB benefits either prior to or after the effective date of these new standards, will help minimize or eliminate the OPEB obligation that will be required to be disclosed in the State's financial statements. This net OPEB obligation would be required to be disclosed on the financial statements and could have a detrimental impact on the employer's perceived financial health.

This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over a combination of 30 years and the present value of future salaries.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. Since the plan has been pre-funded prior to the implementation of these new standards, the current funded ratio is 12%.

The Frequency of the Plan's Actuarial Valuations and Date of the most Recent Actuarial Valuation

This plan is valued on at least a bi-annual basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 2006.

The Source and Degree of Verification of the Data Used in the Actuarial Valuation

Computer files containing data on System membership of June 30, 2006 were provided by the City of San Jose Department of Retirement Services. While these files were not audited, the data was checked for internal consistency and was reviewed for reasonableness and consistency in relation to the data provided for the prior valuation.

Asset-related data were also received from the City of San Jose Department of Retirement Services and were used without further audit.

Supporting Schedules

We have prepared the following supporting schedules for inclusion in this Financial Statement:

- Summary of actuarial assumptions and methods
- Schedule of funding progress
- Schedule of employer contributions
- Summary of benefits provided by the retiree health benefit plan

Actuarial Certification Letter *Continued*

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

Actuarial Assumptions and Methods Used for Funding Purposes

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Certification

We certify that the information presented herein is accurate and fairly portrays the actuarial position of the plan as of June 30, 2006. We prepared the accompanying Summary of Actuarial Assumptions and Methods, but the URS staff prepared the other supporting schedules in this section and the trend tables in the financial section based on information supplied in our report.

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of Utah state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The signatory is a Fellow of the Society of Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries with extensive experience in performing valuations for OPEB plans.

Sincerely,

Leslie L. Thompson

Leslie L. Thompson, FSA, EA, MAAA
Senior Consultant

Summary of Post-Employment Benefit Provisions Evaluated

ELIGIBILITY

Medical

Employees retiring (including deferred vested members) at age 55 with 15 years of service; or with a monthly pension equal to at least 37.5% of final average compensation.

Employees who become disabled and have a monthly pension equal to at least 37.5% of final average compensation.

Spouse/domestic partners of retired members who are qualified for medical are eligible to receive coverage if married and enrolled in one of the City's medical plans at the time of the member's retirement.

Dependent children under 19 years of age (24 if a full-time student) are eligible to receive coverage.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage only if

- the employee has 15 years of service at the time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
- both the member and survivor are enrolled in a City medical insurance plan at the time of death; and
- the survivor will receive a monthly pension allowance.

Dental

Employees retiring or becoming disabled directly from City service must

- have 5 or more years of service; and
- is enrolled in one of the dental insurance plans sponsored by the City

Spouses/domestic partners/children are eligible to receive coverage if enrolled and married at the time of the member's retirement.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage only if

- the employee has 5 years of service at the time of death; and
- both the member and survivor are enrolled in a City dental plan at the time of death; and
- the survivor will receive a monthly pension allowance.

BENEFITS

Medical

The Retirement System pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

Effective January 1, 2006 the lowest cost health plan is Kaiser; family coverage is $939.72 and single coverage is $377.40 per month.

Dental

The Retirement System pays 100% of the dental insurance premiums.

RETIREE PREMIUM RATES

Monthly rates used for 2006 are shown below.

	Effective January 1, 2006	
MEDICAL	*Single*	*Family*
Non-Medicare Monthly Rates		
Kaiser – Traditional (CA)	$377.40	$939.72
Blue Shield HMO	$380.82	$978.22
Blue Shield POS or PPO	$563.58	$1,448.32
Supplemental Medicare Monthly Rate		
Kaiser – Senior Advantage	$342.08	$684.16
Secure Horizons – Medicare + Choice	$315.75	$631.50
PacifiCare – Senior Supplement Plan F	$257.00	$514.00
Blue Shield – Medicare PPO	$434.20	$868.40
Blue Shield – Medicare HMO	$284.84	$569.68

DENTAL	*Single*	*Family*
Delta Dental PPO	$97.84	$97.84
Delta Care PMI	$50.10	$50.10

Summary of Actuarial Assumptions and Methods

Basic Benefits. Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using the entry age normal cost method.

Financing of Unfunded Actuarial Liability. The unfunded actuarial liability was amortized by level percent of payroll contributions over 30 years, the maximum period allowed under the GASB standards.

The expensing and benefit values of the Plan are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described above.

The principal areas of financial risk which require assumptions about future experiences are:

(1) long-term rates of investment return to be generated by the assets of the Fund.

(2) patterns of future medical inflation rates.

(3) rates of mortality among actives, retirants, and beneficiaries.

(4) rates of withdrawal of active employees (without entitlement to a retirement benefit).

(5) the age patterns of actual retirements.

In performing a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives – a period of time which can be as long as a century.

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed expense. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

The annual rate has been computed to remain relatively level from year to year so long as benefits and the basic experience and make-up of employees do not change. Examples of favorable experiences which would tend to reduce the amount expensed are:

(1) Employee non-vested terminations at a higher rate than assumed.

(2) Mortality among retirees and beneficiaries at a higher rate than indicated by our mortality assumptions.

(3) Lower rates of medical inflation than assumed.

(4) Actual retirement ages higher than assumed.

The Entry Age Normal Actuarial Cost Method was used in this valuation.

The investment return rate used for the actuarial valuation is 5.6% per annum, compounded annually. This assumption is used to equate the value of payments due at different points in time.

The inflation rate used for the actuarial valuation calculations was 4.0% per year, compounded annually, the rate used in the City's pension valuation. It represents the difference between the investment return rate and the assumed real rate of return.

Payroll growth rate: 4%

Assumed future medical inflation. The valuation assumes that future medical inflation will be at a rate of 12% per annum graded down each year in 1% increments to an ultimate rate of 4.5% in 2014. Dental inflation is assumed to be 6% graded down to 4% over a nine-year period.

Date of Increase	*Assumed Medical Inflation*	*Assumed Dental Inflation*
12/31/2006	12.0%	6.0%
12/31/2007	11.0	6.0
12/31/2008	10.0	5.5
12/31/2009	9.0	5.5
12/31/2010	8.0	5.0
12/31/2011	7.0	5.0
12/31/2012	6.0	4.5
12/31/2013	5.0	4.5
12/31/2014 +	4.5	4.0

Rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probabilities of members remaining in employment.

Sample Ages	*Disability**	*Withdrawal*	*Vested Termination*
20	.04%	11.00%	--- %
25	.06	7.00	3.00
30	.07	5.00	3.00
35	.09	2.50	2.75
40	.15	1.50	2.00
45	.25	1.25	2.00
50	.40	1.25	1.50
55	.50	1.00	0.00
60	1.00	1.00	0.00
65	2.00	0.00	0.00
70	0.00	0.00	0.00

**50% of the disabilities are assumed to be duty-related and 50% are assumed to be non-duty related.*

For inactive members, the assumed age at retirement is age 58.

The post-retirement mortality table used for healthy retirees and beneficiaries was the 1994 Group Annuity Mortality Table (sex distinct). The disabled mortality table used was the 1981 Disability Mortality Table. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Sample values are shown below.

	Future Life Expectancy *(Years)*			**% of Benefit Recipients Dying Each Year**		
Sample Ages	*Retired Men*	*Retired Women*	*Disabled*	*Retired Men*	*Retired Women*	*Disabled*
45	35.4	39.7	23.6	0.16%	0.10%	2.08%
50	30.7	34.9	21.1	0.26	0.14	2.44
55	26.2	30.2	18.7	0.44	0.23	2.84
60	21.8	25.6	16.4	0.80	0.44	3.30
65	17.8	21.3	14.1	1.45	0.86	3.79
70	14.3	17.3	11.7	2.37	1.37	4.37
75	11.1	13.6	9.2	3.72	2.27	5.53
80	8.4	10.3	7.0	6.20	3.94	8.74

Summary of Actuarial Assumptions and Methods *Continued*

The active member mortality assumption measures the probability of mortality before retirement. The rates include probability of ordinary death, service death, and death while eligible for retirement or disability.

% of Active Members Dying Each Year

Sample Ages	*Men*	*Women*
30	.06%	.05%
35	.06	.05
40	.07	.06
45	.09	.08
50	.16	.13
55	.26	.20
60	.38	.30
65	.53	.44

The rates of retirement used to measure the probability of eligible active members retiring during the next year.

Retirement Ages	*% of Active Members Retiring Within the Next Year*	*Retirement Ages*	*% of Active Members Retiring Within the Next Year*
55	15.0%	63	10.0%
56	7.5	64	10.0
57	7.5	65	25.0
58	7.5	66	25.0
59	7.5	67	25.0
60	7.5	68	25.0
61	7.5	69	25.0
62	20.0	70	100.00

**Superseded by 50% retirement probability each year after completion of 30 years of service and attainment of age 50.*

Additional Medical Assumptions

The eligibility conditions for retiree medical coverage we used were after attainment of age 55 and 15 years of service at retirement, or a monthly pension equal to 37.5% of final average compensation. Deferred retirements and disabled retirements meeting this requirement are also eligible for medical coverage. The eligibility condition for medical coverage for future surviving spouses was assumed to be the active member's attainment of 15 years of service.

Participation in retiree medical plans: We assume 85% of future retirees meeting the eligibility conditions above will participate in the retiree medical plan.

The probability of electing spouse/domestic partner coverage at retirement was assumed to be 55% for future retirees, with males assumed to be three years older than their spouses, and females assumed three years younger. Also, 55% of active members dying in service are assumed to leave surviving spouses who elect medical coverage. 100% of surviving spouses of retired members are assumed to continue coverage.

Additional Dental Assumptions

The eligibility conditions for retiree dental coverage we used were after attainment of 5 years of service at retirement, or eligible for disabled retirement. Deferred retirements are not eligible for dental coverage. The eligibility condition for dental coverage for future surviving spouses was assumed to be the active member's attainment of 5 years of service.

Participation in retiree medical plans: We assume 100% of future retirees meeting the eligibility conditions above will participate in the retiree dental plan.

The probability of electing spouse/domestic partner coverage at retirement was assumed to be 65% for future retirees, with males assumed to be three years older than their spouses, and females assumed three years younger. Also, 65% of active members dying in service are assumed to leave surviving spouses who elect medical coverage. 100% of surviving spouses of retired members are assumed to continue coverage.

Implicit Subsidy and Premium Development: Premium development is required for the two classes of retirees (pre-age 65 and post-age 65). These premiums were developed using fully-insured premium rates from the health plans offered in conjunction with census data for the active and retired participants of the City's medical benefit plan (see page 26). These premium rates were adjusted to reflect the increase in utilization expected of an older population and the decrease in expected number of dependents covered under family coverage. In addition, these premium rates were adjusted to reflect differing utilization rates by age and sex. Sex-specific aging factors used reflect the expectation that women will have about the same per capita claims as men at age 57 years, have higher claims before age 57, and have lower claims after age 57. Gross imputed single coverage rates at sample ages are shown below.

The impact of the recently enacted Federal legislation creating a prescription drug benefit under Medicare has not been reflected in this report since the impact will affect contributions (in the form of on-behalf contributions), not liabilities of the plan (GASB Technical Bulletin 2006-1).

GROSS IMPUTED SINGLE COVERAGE MONTHLY PREMIUM RATES BY AGE

Pre-Age 65 Retiree Rates			**Post-Age 65 Retiree Rates**		
Age	*Male*	*Female*	*Age*	*Male*	*Female*
55	$473.77	$486.99	65	$335.48	$308.93
60	595.19	572.10	70	386.97	347.96
64	692.77	642.13	75	429.60	381.26
			80	460.62	406.02

Dental Premium: Based on census data for current retiree dental plan participants (see page 26); we assumed 97% of future eligible retirees would choose Delta Dental PPO and 3% of future eligible retirees would choose Delta Care PMI. This produced a monthly dental premium rate of $90.50.

Funding Progress Indicators

There is no single all-encompassing indicator which measures a retirement system's funding progress and current funded status. A traditional measure has been the relationship of valuation assets to unfunded actuarial accrued liability – a measure that is influenced by the choice of actuarial cost method.

We believe a better understanding of funding progress and status can be achieved using the following indicators which are independent of the actuarial cost method.

(1) ***The ratio of assets to the actuarial present value of credited projected benefits*** allocated in the proportion accrued service is to projected total service – a plan continuation indicator. The ratio is expected to increase in the absence of benefit improvements or strengthening of actuarial assumptions.

(2) ***The ratio of the unfunded actuarial present value of credited projected benefits to member payroll*** – a plan continuation indicator. In a soundly financed retirement system, the amount of the unfunded actuarial present value of credited projected benefits will be controlled and prevented from increasing in the absence of benefit improvements or strengthening of actuarial assumptions. However, in an inflationary environment, it is seldom practical to impose this control on dollar amounts which are depreciating in value. The ratio is a relative index of condition where inflation is present in both items. The ratio is expected to decrease in the absence of benefit improvements or strengthening of actuarial assumptions.

SCHEDULE OF FUNDING PROGRESS FOR RETIREE MEDICAL BENEFITS

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*AAL (b)*	*UAAL (b-a)*	*Funding Ratio (a/b)*	*Payroll (c)*	*UAAL as % of Payroll ((b-a)/c)*
6/30/06	$81,288,000	$702,938,665	$621,650,665	11.6%	$275,558,882	225.6

EMPLOYER CONTRIBUTIONS RETIREE MEDICAL BENEFITS ONLY

Year Ended	*Annual Required Contribution*	*Percentage Contributed*
June 30, 2007	$38,526,038	28%

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, Postemployment Medical Benefits and Non-OPEB Benefits. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the Plan's net assets, benefits, refunds, contribution rates and different types of retirement benefits. The financial and operating trend information is located on the following pages.

Statistical Section

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Statistical Review (Unaudited)

CHANGES IN NET ASSETS FOR FISCAL YEARS 1999-2008 *(Dollars in thousands)*

Pension Benefits (Schedule 1a)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Additions										
Member contributions	$8,812	$10,804	$10,306	$11,071	$11,776	$12,394	$12,393	$12,395	$12,370	$13,366
Employer contributions	30,139	34,146	35,284	41,011	38,411	39,534	41,552	41,267	51,004	54,958
Investment Income*	93,491	73,839	(2,934)	(24,140)	71,179	192,373	115,618	132,873	244,210	(60,101
Total additions	**132,442**	**118,789**	**42,656**	**27,942**	**121,366**	**244,301**	**169,563**	**186,535**	**316,293**	**8,223**
Deductions (See Schedule 2a)										
Benefit payments	34,846	44,655	43,761	48,235	46,814	53,578	60,438	68,438	75,135	83,291
Death benefits	47	20	105	22	4,752	5,454	5,437	5,721	5,867	6,263
Refunds	646	1,386	1,886	1,207	714	1,188	927	1,246	1,008	972
Administrative expenses and other	682	1,059	1,322	1,378	1,532	1,799	1,588	1,790	1,845	2,358
Total deductions	**36,221**	**47,120**	**47,074**	**50,842**	**53,812**	**62,019**	**68,390**	**77,195**	**83,855**	**92,884**
CHANGE IN NET ASSETS	**$96,221**	**$71,669**	**$(4,418)**	**$(22,900)**	**$67,554**	**$182,282**	**$101,173**	**$109,340**	**$232,438**	**$(84,661)**

*Net of Expenses

Postemployment Healthcare Benefits (Schedule 1b)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Additions										
Member contributions	$1,921	$1,679	$1,462	$2,787	$3,032	$3,191	$5,219	$5,226	$9,612	$10,403
Employer contributions	2,248	1,596	1,750	4,127	3,866	3,948	5,996	5,961	10,728	11,560
Investment Income*	6,416	4,132	(536)	(1,558)	4,193	11,066	6,539	7,273	13,317	(3,715)
Total additions	**10,585**	**7,407**	**2,676**	**5,356**	**11,091**	**18,205**	**17,754**	**18,460**	**34,158**	**18,248**
Deductions (See Schedule 2b)										
Health Insurance Premiums	4,711	5,236	6,530	7,804	9,191	11,438	13,393	15,904	18,265	20,195
Administrative expenses and other	44	77	98	94	99	114	95	103	105	134
Total deductions	**4,755**	**5,313**	**6,628**	**7,898**	**9,290**	**11,552**	**13,488**	**16,007**	**18,370**	**20,329**
CHANGE IN NET ASSETS	**$5,830**	**$2,094**	**$(3,952)**	**$(2,542)**	**$1,801**	**$6,653**	**$4,266**	**$2,453**	**$15,788**	**$(2,081)**

*Net of Expenses

Source: Pension Administration System

Statistical Review (Unaudited) *Continued*

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE *(Dollars in thousands)*

Pension Benefits (Schedule 2a)

Type of Benefit	*2008*	*2007*	*2006*
Age and Service Benefits			
Retirees - Service	$ 71,849	$ 64,978	$ 59,391
Retirees - Deferred Vested	5,730	4,860	4,134
Survivors - Service	3,561	3,320	3,195
Survivors - Deferred Vested	122	108	87
Death in Service Benefits	1,815	1,722	1,750
Disability Benefits			
Retirees - Duty	3,102	2,920	2,702
Retirees - Non-Duty	1,835	1,737	1,640
Survivors - Duty	218	197	187
Survivors - Non-Duty	547	519	502
Ex-Spouse Benefits	775	640	571
TOTAL BENEFITS	**$89,554**	**$81,002**	**$74,159**
Type of Refund			
Separation	$ 972	$ 1,008	$ 1,246
TOTAL REFUNDS	**$ 972**	**$ 1,008**	**$ 1,246**

Fiscal Year 2004-05 data not available due to system limitations

Postemployment Healthcare Benefits (Schedule 2b)

Type of Benefit	*2008*	*2007*	*2006*
Age and Service Benefits			
Retirees – Service			
Medical	$ 13,524	$ 12,029	$ 10,341
Dental	2,148	2,022	1,870
Retirees – Deferred Vested*			
Medical	949	767	652
Dental	29	35	-
Survivors – Service			
Medical	800	730	628
Dental	269	251	235
Survivors – Deferred Vested*			
Medical	10	9	11
Dental	-	-	-
Death in Service Benefits			
Medical	327	313	293
Dental	69	72	71
Disability Benefits			
Retirees – Duty			
Medical	1,113	1,098	956
Dental	143	145	131
Retirees – Non-Duty			
Medical	483	478	433
Dental	81	78	73
Survivors – Duty			
Medical	75	69	59
Dental	19	18	17
Survivors – Non-Duty			
Medical	123	119	103
Dental	33	32	31
Ex-Spouse Benefits			
Medical	-	-	-
Dental	-	-	-
TOTAL BENEFITS	**$20,195**	**$18,265**	**$15,904**

** Deferred Vested dental data unavailable in 2006*

Source: Pension Administration System

Statistical Review (Unaudited) *Continued*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 1999-2008
(Schedule 3)

Fiscal Year	*Employee Rate (%)*	*Employer Rate (%)*
1999*	5.31	16.52
2000	5.31	16.52
2001	4.76	16.09
2002	4.96	17.40
2003	5.08	15.20
2004	5.08	15.20
2005	6.06	17.12
2006	6.06	17.12
2007	7.58	21.98
2008	7.58	21.98

** Multiple rates this year*

Source: Pension Administration System

Retired Members by Type of Benefit

PENSION BENEFITS *As of June 30, 2008*

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement*						Option Selected**			
		1	2	3	4	5	6	A	B	C	Total
$1 - 500	160	48	43	2	1	13	53	77	17	66	160
501 - 1000	316	113	96	4	5	27	71	147	11	158	316
1001 - 1500	344	123	107	24	16	12	62	165	27	152	344
1501 - 2000	383	217	65	30	29	7	35	228	30	125	383
2001 - 2500	337	223	34	32	15	3	30	220	21	96	337
2501 - 3000	287	223	17	19	11	4	13	196	26	64	286
3001 - 3500	226	193	8	8	3	1	13	159	19	47	225
3501 - 4000	226	202	5	4	2		13	166	20	42	228
4001 -4500	171	157	6	2	-	-	6	121	17	32	170
4501 - 5000	105	101	1	1	-	-	2	72	9	25	106
Over $5000	331	318	1	3	-	-	9	249	25	57	331
TOTAL	**2886**	**1918**	**383**	**129**	**82**	**67**	**307**	**1800**	**222**	**864**	**2886**

***RETIREMENT CODES**

1 Service
2 Survivor
3 Service-Connected Disability
4 Non-Service-Connected Disability
5 Ex-Spouse
6 Deferred Vested

****OPTION DESCRIPTIONS**

A Unmodified - 50% Continuance
B Option 1 - 100% Continuance/reduced pension
C No Survivor - No Continuance

POSTEMPLOYMENT HEALTHCARE BENEFITS

Amount Monthly Benefit	Type of Subsidy: Health	Dental
Ineligible/Deferred	707	438
$1 - 60	1	70
61 - 250	2	2378
251 - 500	998	-
501 - 750	29	-
751 - 1000	438	-
Over $1000	711	-
TOTAL	**2886**	**2886**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

	Years of Service Credit						
	0-5	*6-10*	*11-15*	*16-20*	*21-25*	*26-30*	*31+*
Retirement Effective Dates							
Period 7/1/2007 to 6/30/2008							
Average Monthly Benefit*	$751	$1,094	$1,828	$2,497	$3,331	$4,503	$5,152
Average Final Average Salary	$3,796	$3,834	$4,070	$4,499	$4,587	$5,024	$5,699
Number of Retired Members**	118	316	350	510	366	594	115
Period 7/1/2006 to 6/30/2007							
Average Monthly Benefit*	$732	$1,049	$1,728	$2,398	$3,129	$4,253	$4,947
Average Final Average Salary	$3,455	$3,627	$3,867	$4,316	$4,263	$5,030	$5,505
Number of Retired Members**	115	307	344	476	342	564	105
Period 7/1/2005 to 6/30/2006							
Average Monthly Benefit*	$665	$981	$1,638	$2,252	$2,971	$4,142	$4,679
Average Final Average Salary	$3,073	$3,413	$3,704	$4,123	$4,067	$4,755	$5,324
Number of Retired Members**	116	294	337	449	322	536	100

* *Includes Cost of Living Increases*

** *Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Average Benefit Payment Amounts *Continued*

POSTEMPLOYMENT HEALTHCARE BENEFITS

	Years of Service Credit						
	0-5	*6-10*	*11-15*	*16-20*	*21-25*	*26-30*	*31+*
Retirement Effective Dates							
Period 7/1/2007 to 6/30/2008							
Average Health Subsidy	$761	$674	$681	$727	$738	$785	$738
Number of Health Participants*	20	42	192	492	356	582	114
Average Dental Subsidy	$98	$98	$98	$98	$98	$98	$98
Number of Dental Participants*	59	206	286	456	339	580	115
Period 7/1/2006 to 6/30/2007							
Average Health Subsidy	$728	$683	$654	$678	$679	$736	$700
Number of Health Participants*	23	45	195	459	331	555	104
Average Dental Subsidy	$97	$97	$97	$97	$97	$97	$97
Number of Dental Participants*	62	202	286	431	318	552	105
Period 7/1/2005 to 6/30/2006							
Average Health Subsidy	$616	$635	$613	$614	$615	$670	$641
Number of Health Participants*	24	49	189	416	305	520	98
Average Dental Subsidy	$95	$94	$94	$94	$94	$94	$94
Number of Dental Participants*	62	191	280	397	297	521	99

** Does not include Survivors and Ex-Spouses*
Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Retirements During Fiscal Year 2007-08

SERVICE RETIREMENTS

AGATEP, EDWIN
ALLEN, TERI
ALVARADO, MARGO
ANGULO, LINDA
ARITA, MARIAN
BAILEY, ROGER
BAKER, JAMES
BELANGER, JANICE
BIORDI, BRUCE
BOES, JUDITH
BOHANNAN, LARRY
BOYLES, ROBERT
BRENKWITZ, ROBERT
BRENNAN, JAMES
BREWER, SHIRLEY
BROADWAY, BLAKE
CALLAHAN, TIMOTHY
CANDELARIA, GIL
CANNON, QUEEN
CARLTON, SUSAN
CARRION, JEAN
CARROLL, BETTY
CHACON, JAN
CHACONA, CHRISTOPHER
CHESSMAN, ROBERT
CLARK, HOSEA
CLARKE, HARRYETTE
COFFIELD, ROBERT
COLLINS, ESTHER
COLLINS, JO-ANN
CONNERS, DAVID
CUNNINGHAM, RICHARD
DAEUMLER, LAWRENCE
DE WITT, JOHN
DE WITT, JANICE
DEVENCENZI, SUSAN
DIEP, EDWARD
DUARTE, JOSEPH
DUNCANSON, TONA
ESPINOZA, JOSEPH
EVANS, BARBARA
FLANERY, JUDITH
FLEMATE, RICHARD
FRANCO, PEDRO
GIBSON, MIGNON
GILL, GLORIA
GUTIERREZ, CHERYL
HADRE, TELESFORD
HODGES, ROBERT
HOGAN, THOMAS
HORNING, MICHAEL
HOVEY, ROY
HSIEH, OFELIA
HUGHES, WILLIAM
HUTTON, JOHN
JEPSON, MARY
JOHNSON, ALETHA
JOHNSON, KAREN
JONES, GARY
JORDAN, CAROLYN
JOSEPH, ROBYN
KETCHUM, STANLEY
KORPI, KENNETH
LA MANTIA, ROBERT
LAKIA, THOMAS
LE BAUDOUR, SHARON
LEE, KENNETH
LEONE, JOHN
LEVERING, GARY
LI, TERESA
LINDER, MARK
LUTZ, ROBERT
MARTIN, JOHN
MATA, VICTORIA
MC INTOSH, RICHARD
MICELI, SHARON
MOUNTS, THOMAS
MULA, ALAN
MUSSELMAN, NANCY
NANSON, THOMAS
NEUGEBAUER, GARY
OXENRIDER, WILLIAM
OZAWA, DALE
PADILLA, ARTHUR
PAIGLY, WAYNE
PATRON, PETER
PERALTA, STEPHEN
PEREZ, JAVIER
PFENDT, SIEGFRIED
PHAGAN, ANITA
PONCE, JAVIER
POSTIER, CAROL
POWELL, JUDITH
RIOS, GERARDO
RODRIGUEZ, DAVID
RUSSELL, SHARON
SANCHEZ, AURELIA
SATO, NORMAN
SAUAO, TINA
SCHACTER, ANDREA
SCOTT, WAYNE
SHELDON, CHARLE
SIERRAS-HODGE, RAMONA
SIFUENTES, MANUEL
SILVA, GERALD
SIZEMORE, METHA
SMITH, LINDA
SPENCER, WILLARD
STONE, ROBERT
SULLIVAN, MICHAEL
SUPAN, ALAN
SWIFT, JANE
SYTWU, KAROL
TALBOTT, JAMES
TANIGUE, JAIME
THOMPSON, DAVID
TOLENTINO, REYNALDO
TOMLIN, JOHN
TORRES, RITA
TREJO, MARTHA
TREWN, MANINDER
VAN DE PITTE, GARY
VAN HEUSEN, ROBERT
VARGAS, RICK
VIGLIONE, NORA
WADSWORTH, DON
WARREN, KENNETH
WEBSTER, THOMAS
WESTWATER, DEBORAH
WHITE, LESLIE
WHITTEN, FELTON
WINER, KATHERINE
WOLF, J. LINDSEY
YAMAMOTO, BOB

Source: Pension Administration System

Retirements During Fiscal Year 2007-08 *Continued*

DEFERRED VESTED RETIREMENTS

ALBANO, ANNE
BAGLIONE, MARY BETH
BOWMAN, FRANK
CREAL, HENRY
DACANAY, SHARON
DREIER, MARTHA
GONZALES, JANE
GRIJALVA, DANIEL
HODGES, ROBERT
HSI, IGIN
LEWIS, DIANA
MISRA, JULIAN S
NELSON, KAREN
OTTENS, STEPHEN
PEREZ, YOLANDA
PONCIANO, ELENA
PRANDI, JAMES
RODOLFA, JAMES
SCHRAG, STEPHEN
SHIRAMIZU, MABEL
TEREN-FOSTER, AILEE
TORRES, MAMERTO
VIDEAN, THERESA
WAHLER, ROBERT
WILKINS, RICHARD
WILLIS, STEVEN

SERVICE-CONNECTED DISABILITY RETIREMENTS

GONZALES, PAUL

NON-SERVICE-CONNECTED DISABILITY RETIREMENTS

CARD, CHRISTINE
HILTY, GORDON
MAI, TUONGVAN
MC NATT, DANNY
RUZYLO, SCOTT

Deaths During Fiscal Year 2007-08

DEATHS AFTER RETIREMENT

AKERSTROM, BETZI
ANDERSON, BEVERLY
BEAM, NORMAN
BETTENCOURT, MARY
BOLES, DOLORES
BOWERS, WILLIAM
BUSTABADE, ERNEST
BYRON, WALLACE
DALTON, VERNELLE
DAMEY, STUART
ELLIS, ROBERT
GAMEZ, PETER
GARCIA, LOUIS
GUERNSEY, DORIS
HAMILTON, PAUL
HAWKINS, PAULINE
HEIN, FREDERICK
HURLEY, ROBERT
IMAMURA, GEORGE
JUAREZ, LUIS
KIMBALL, ROBERT
KIRBY, JOSEPH
LEONARDINI, ROSE
MACY, CYNTHIA
MOODY, THOMAS
MORGENTHALE, LAVONNE
MORSS, JEAN
MOUBER, SEYMOUR
MURPHY, JEWEL
MURRELL, RONALD
NICOLETTA, SALVATORE
NORMAN, HELEN
PARSONS, RUTH
PEDRAZA, ENRIQUE
PICAZO, ALICE
PINON, ALBERT
POPE, DONNA
RAICHE, LEO
RAMIREZ, ARTURO
RHEW, KENNETH
ROGERS, GARY
ROSEN, HAROLD
THATCHER, ELIZABETH
TITTLE, KENNETH
TORRES, ALONZO
TOVAR, JAVIER
UEDA, TOM
WATKINS, WILLIAM
WILEY, CLAUDE
WILLIAMS, WILHELMINA
WRIGHT, R. GEORGE
YAMASHITA, SHOJI

DEATHS BEFORE RETIREMENT

ALLARD, DAVID E.
MARTIN, GREGG
PINEDO, GUADALUPE
PUCKETT, JOHN C.
ROGERS, DOROTHY R.
SAAVEDRA, FELIPE
WEAVER, BARRY

Source: Pension Administration System

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CITY OF SAN JOSE

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